99TH CONGRESS
2d Session } HOUSE OF REPRESENTATIVES { REPT. 99-577
Part 1

INTERNATIONAL DEBT, TRADE, AND FINANCIAL STABILIZATION ACT

MAY 6, 1986.—Ordered to be printed

Mr. ST GERMAIN, from the Committee on Banking, Finance and Urban Affairs, submitted the following

REPORT

together with

ADDITIONAL, SUPPLEMENTARY, MINORITY, AND DISSENTING VIEWS

[To accompany H.R. 4574]

[Including cost estimate of the Congressional Budget Office]

The Committee on Banking, Finance and Urban Affairs, to whom was referred the bill (H.R. 4574) to alleviate the international debt crisis, expand world trade, and promote stability in the international financial system, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "International Debt, Trade, and Financial Stabilization Act".

SEC. 2. PURPOSES.

The purposes of this Act are as follows:

(1) Alleviate the current international debt crisis in order to make the debt situation of developing countries more manageable and permit the resumption of sustained growth in those countries.

(2) Expand the world trading system and raise the level of exports from the United States to the developing countries in order to reduce the United States trade deficit and foster economic expansion and an increase in the standard of living in the developing nations.

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(3) Increase the stability of the world financial system and insure the safety and soundness of United States depository institutions.

(4) Provide a clear statement of support for the United States debt initiative for the heavily indebted developing countries, including an expanded role for the World Bank and other multilateral development banks in resolving the current debt crisis and achieving sustained growth and development for the developing nations.

(5) Provide explicit directions to the President and the Secretary of the Treasury about the initiatives which should be undertaken by the United States to resolve the international debt crisis and achieve the twin goals of enhancing the stability of the world financial system and expanding world trade and development.

SEC. 3. DEFINITIONS.

For purposes of this Act—

(1) MULTILATERAL DEVELOPMENT BANK.—The term "multilateral development bank" means the International Bank for Reconstruction and Development, the Inter-American Development Bank, the African Development Bank, and the Asian Development Bank.

(2) WORLD BANK.—the term "World Bank" means the International Bank for Reconstruction and Development.

(3) STRUCTURAL ADJUSTMENT LENDING.—The term "structural adjustment lending" means lending for broad macroeconomic stability and in support of structural economic reforms, including lending for trade liberalization, mobilization of domestic and foreign capital, and institutional reform to expand the private sector.

(4) TRADE AND INVESTMENT LIBERALIZATION.—The term "trade liberalization" means the reduction of tariff and non-tariff barriers to imports and the reduction of barriers to foreign direct and portfolio investment.

TITLE I—MEASURING THE IMPACT OF THE DEBT CRISIS ON WORLD TRADE, DEVELOPMENT, AND FINANCIAL STABILITY

SEC. 101. FINDINGS.

The Congress hereby finds the following:

(1) The indebtedness of developing countries represents a grave threat to—

(A) the health and viability of the world trading system because it prevents sustained growth in the developing world while seriously eroding the trading posture and the economic well-being of the United States; and

(B) the stability of the international financial system and safety and soundness of United States depository institutions.

(2) With respect to trade—

(A) the United States trade deficit with developing countries, which amounted to $53,000,000,000 in 1984, has cost over 1,000,000 jobs in the United States since 1980;

(B) the burden of public and private debt now borne by the developing nations—

(i) seriously limits their capacity to import goods and service from the United States; and

(ii) is a major contributing factor to the current United States trade deficit;

(C) since the beginning of the debt crisis in 1982, the developing nations have relied heavily on import substitution and export promotion to improve their own balance of payments which has exacerbated the United States trade deficit with the developing nations, thereby fueling the pressures within the United States for protectionist legislation;

(D) the developing nations were the fastest-growing market for United States goods before the debt crisis began and they remain the largest future potential market for United States exports; and

(E) trade and investment barriers must be decreased in developing countries if United States exports are to expand and if those nations are to resume sustained growth.

(3) With respect to the stability of the world financial system—

(A) the amount of the debt which developing countries owe to both private and public creditors is now approaching $900,000,000,000 which constitutes a debt service burden on the developing countries which is politically unsustainable and potentially disruptive to the world financial system;

(B) the amount of the debt which developing countries owe to commercial banks worldwide is over $600,000,000,000 of which $134,000,000,000 is owed to commercial banks in the United States;

(C) the exposure of the 100 largest United States banks to developing country debt is equal to 110 percent of the aggregate equity capital of those banks and the exposure of certain major United States banks exceeds that ratio;

(D) the indebtedness of developing countries has doubled since 1980;

(E) much of the proceeds of commercial loans which were made to the developing nations in the 1970's and early 1980's was used for purposes which did not increase the capital generating capacity of the borrowing nations with the result that some of these borrowers cannot manage their debt on the terms originally negotiated; and

(F) the debt service requirements of the debt of developing countries have resulted in a net transfer of capital from the developing countries to the industrialized nations since 1982 (in 1984 alone, the developing nations sent almost $15,000,000,000 more back to the developed world than they received) and this capital flow situation cannot be sustained over the long term.

(4) Partly because the markets for raw commodities upon which the economies of the nonindustrialized nations are necessarily dependent are expected to remain depressed over the next few years, the problems associated with the debt service burdens of developing countries are likely to grow worse without sustained cooperative efforts on the part of the developing and developed countries;

(5) The recent and dramatic drop in the price of oil, which will benefit most developing countries, will increase financing difficulties for some debtor countries, such as Mexico.

(6) Capital flight, which has been caused in part by—

(A) a lack of domestic confidence in the economies of developing countries, particularly the financial sectors of such economies; and

(B) United States fiscal and monetary policies in effect since 1980 which have resulted in an overvalued dollar, excessive deficit spending, and historically high real interest rates,

is another component of the problem confronting the debtor developing countries and credible estimates suggest that if, in the case of at least some of the developing countries, the indigenous capital which is now held abroad were repatriated to such countries, those countries would have a significantly lower external debt.

(7) Indebted developing countries have significantly improved their current account balances since the beginning of the debt crisis, but such improvements have been made at the cost of—

(A) declining standards of living which fail to provide for the basic human needs of the citizens of such countries with a concomitant rise in political discontent; and

(B) an exacerbated trade deficit for the United States with a concomitant rise in protectionist sentiment.

(8) The debt initiative unveiled by the Secretary of the Treasury James Baker in Seoul, Korea, in October of 1985 was a positive shift in United States policy toward an emphasis on the need for achieving growth in the debtor nations through—

(A) the adoption of sound, growth-oriented economic policies by the debtor nations;

(B) an increase in world trade; and

(C) increased and more effective project and adjustment lending by the multilateral development banks and increased lending by the commercial banks;

(9) If the debt initiative is to achieve its stated goals, the Congress must act to provide a clear statement of United States policy on international debt management and trade liberalization and to provide direction to the President and other executive officers of the United States in carrying out such policy.

(10) A resolution of the current international debt problem will require—

(A) an increase in the flow of private capital, in both debt and equity form, to the developing countries; and

(B) an increase in the role played by the public sector and the commercial financial institutions in providing assistance to the developing countries and in managing the international debt situation.

(11) The World Bank and the regional multilateral development banks are the appropriate institutions to lead and coordinate the international efforts to resolve the current developing country debt situation, but, to succeed, the multilateral development banks will—

(A) require additional resources;

(B) need to develop more innovative lending practices; and

(C) need the political support of the United States.

TITLE II—INCREASING WORLD BANK EFFECTIVENESS

SEC. 201. RAPID LOAN DISBURSEMENTS.

In order to provide a rapid infusion of needed capital into developing countries—

(1) FULL RELEASE OF COMMITTED LOAN FUNDS AT BEGINNING OF PROJECT PERIOD.—The Secretary of the Treasury shall instruct the United States Executive Director of the World Bank to initiate discussions with other directors of such bank and to propose that a temporary adjustment be made in the current disbursement practices of such bank so as to permit, for a period of not more than 4 years, full release of committed loan funds to the central bank of any recipient country at the beginning of a project period, when such action is appropriate and is requested by the recipient country, to the extent that—

(A) adequate accounting safeguards can be maintained to insure that the terms of the respective loan agreements are honored; and

(B) the recipient country adequately describes how the accelerated disbursement of such funds will contribute to long-term economic growth.

(2) INCREASES IN MULTILATERAL DEVELOPMENT BANKS SHARES OF PROJECT LOANS.—The Secretary of the Treasury shall instruct the United States Executive Directors of the multilateral development banks to initiate discussions with other Directors of their respective banks and to propose that each bank's share of any project loan already approved and awaiting disbursement should be immediately increased by such amount as the Directors of each such bank determine to be appropriate, taking into account the current ability of the recipient country to meet its counterpart funding requirements.

SEC. 202. STRUCTURAL ADJUSTMENT LENDING.

(a) DIRECTORS TO UNITED STATES EXECUTIVE DIRECTOR OF THE WORLD BANK.—In order to promote the economic policy adjustments which are needed to assist developing countries, the Secretary of the Treasury shall instruct the United States Executive Director of the World Bank to initiate discussions with other directors of the bank and to propose that—

(1) an increase be made in the amount of structural adjustment lending by the World Bank and any percentage limitation on the number of structural adjustment loans in the World Bank's lending portfolio be removed, except that such Director shall make it clearly understood that United States policy does not favor the displacement or replacement of project lending by structural adjustment lending but the addition of structural adjustment lending to the bank's loan mix;

(2) appropriate action be taken by the bank to ensure that the aims of structural adjustment lending can be achieved;

(3) the conditionality of structural adjustment lending should include innovative requirements designed to minimize any adverse impact of such lending on the lowest income groups in the developing countries, including a requirement that each country receiving such lending establish a fund to be used for guaranteeing private loans to microenterprise borrowers within such country; and

(4) appropriate action be taken by the bank to ensure that structural adjustment lending is consistent with environmentally sound and responsible development practices that lead to sustainable long-term management of the natural resources of these countries.

(b) SMALL-SCALE CREDIT.—The Secretary of the Treasury shall instruct the United States Director of the World Bank to enter into negotiations with other Directors of such Bank and to propose that a fund be established within the World Bank for purposes of making small-scale credit available to lower income groups in developing countries which have had no access to such credit. To the extent appropriate, the extension of any credit through such fund to a borrower in a developing country should be coordinated with the guarantee fund described in subsection (a)(3) with respect to such country.

(c) REPORT BY THE SECRETARY OF THE TREASURY.—

(1) REPORT REQUIRED.—The Secretary of the Treasury shall, before the end of the 1-year period beginning on the date of the enactment of this Act and in con-

junction with and consultation with the United States Executive Director of the World Bank, prepare and transmit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate on the effectiveness of increased reliance on structural adjustment lending as a means of achieving economic reforms.

(2) CONTENTS OF REPORT.—The report prepared under paragraph (1) shall include—

(A) information about the extent to which structural adjustment lending has increased domestic savings rates, liberalized trade, encouraged direct investment in developing countries, and reduced capital flight; and

(B) economic and demographic data on the impact of structural adjustment lending on various income groups within the recipient countries, particularly the impact of such lending on the provision of resources to meet the basic human needs of the lowest income groups, including the need for adequate nutrition and basic health care.

SEC. 203. REDUCING CAPITAL FLIGHT.

(a) SENSE OF THE CONGRESS.—It is the sense of the Congress that—

(1) past and continuing transfers of capital from developing countries pose a problem of great importance for which a solution must be found before the international debt crisis can be resolved and economic growth in developing countries can be enhanced and sustained; and

(2) the United States Executive Director of the World Bank should—

(A) initiate discussions with other directors of the bank for the purpose of developing policy proposals for both developed countries and developing countries, respectively, which, if implemented, would reduce the level of capital transfers from the developing countries by enhancing incentives to invest in developing countries and thereby reduce the impact of such capital flight on the economies of such countries; and

(B) report any such proposal which is applicable with respect to the United States to the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System.

(b) INSTRUCTIONS TO UNITED STATES EXECUTIVE DIRECTORS OF MULTILATERAL DEVELOPMENT BANKS.—The Secretary of the Treasury shall instruct the United States Executive Directors of the multilateral development banks to initiate discussions with other directors of their respective banks and to propose that each such bank increase lending for the purpose of reforming the financial sectors of indebted developing countries with particular emphasis on increases in loans for activities which would have the effect of enlarging the capital markets and encouraging domestic savings in those countries.

SEC. 204. INCREASING WORLD BANK LENDING RESOURCES.

(a) WORLD BANK LENDING AFFILIATE.—The President shall initiate negotiations with other member nations of the World Bank—

(1) to provide for the establishment by the World Bank of a banking entity or affiliate for which the World Bank would initially provide $1,000,000,000 in capital from its own capital account;

(2) to authorize such banking entity or affiliate—

(A) to offer for public subscription such amount of stock in such entity or affiliate as the directors of the World Bank may determine to be appropriate; and

(B) to borrow such amounts as may be determined by the directors of the World Bank to be appropriate and to issue bonds, notes, and other evidence of indebtedness for the amounts borrowed; and

(3) to authorize such banking entity or affiliate to make or guarantee loans to the extent the total amount of disbursed or guaranteed loans outstanding at any time does not exceed an amount equal to 5 times the amount of capital and surplus of such entity or affiliate.

(b) STUDY AND REPORT BY THE SECRETARY OF THE TREASURY.—

(1) STUDY REQUIRED.—The Secretary of the Treasury shall conduct a study of the need for a general increase in the amount of capital of the World Bank.

(2) REPORT REQUIRED.—The Secretary of the Treasury shall prepare and transmit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate on the conclusions reached by the Secretary in the course of conducting the study under paragraph (1) not later than November 1, 1986, or 60 days after the enactment of this Act, whichever date occurs later.

(3) CONTENTS OF REPORT.—The Secretary's report shall include—

(A) a detailed explanation of the reason for any recommendation of the Secretary for an increase in the amount of capital of the Bank and a general explanation of the Secretary's timetable and plans for presenting a request for such an increase to the Congress; and

(B) a discussion of the feasibility of achieving any such increase in capital exclusively through the use of callable capital rather than paid-in capital.

TITLE III—INCREASING WORLD TRADE AND ECONOMIC GROWTH

SEC. 301. TRADE LIBERALIZATION IN DEVELOPING COUNTRIES.

(a) SENSE OF THE CONGRESS.—It is the sense of the Congress that the expansion and liberalization of world trade can make an important contribution to the development of, and the achievement of prosperity for, the developing nations and sustained growth in the United States and other nations.

(b) DECLARATION OF UNITED STATES POLICY.—The Congress declares it to be the policy of the United States that any assistance provided to developing nations shall be consistent with and supportive of long-term trade liberalization in those countries and in worldwide markets.

(c) DIRECTIONS OF UNITED STATES EXECUTIVE DIRECTORS OF MULTILATERAL DEVELOPMENT BANKS.—The Secretary of the Treasury shall instruct the United States Executive Directors of the multilateral development banks—

(1) to initiate discussions with other directors of their respective banks and to propose that all new loans or guarantees entered into by the respective banks shall be consistent with, and in all feasible cases shall be conditioned upon, the reduction of existing trade and investment barriers or limitations on access to the markets of the recipient countries;

(2) to vote against any loan the making of which would be inconsistent with the long-term advancement of trade liberalization and increased market access within recipient countries, and that, while it is in the interest of the United States to promote development in developing countries and remove barriers to trade and investment, the promotion of such development through the sustained use of any form of governmental subsidies the effect of which is to give producers in such countries an unfair advantage over producers in developed countries or other developing countries is contrary to the interests of the United States;

(3) to initiate discussions with other directors of their respective banks and to propose that the structural adjustment loans and the sectoral loans described in title II not be approved until an assessment of the extent to which the extension of such loans will promote trade liberalization and increase market access is made by the staff of the respective bank and presented to the Executive Directors of such bank;

(4) to take actions to assure the United States firms are fully informed of bidding opportunities in countries receiving loans from the respective banks;

(5) to take actions to assure that United States firms can focus on projects in which they have a particular interest or competitive advantage and to permit them to complete and have an equal opportunity in submitting timely and conforming bidding documents;

(6) to thoroughly investigate any complaints from United States bidders about the awarding of multilateral development bank procurement contracts to ensure that all multilateral development bank contract procedures and rules are observed and that United States firms are treated fairly;

(7) to promote opportunities for exports of goods and services from the United States; and

(8) to ensure that project loans by the respective multilateral development banks for commodities, materials, or products do not contribute to a surplus in world markets in which—

(A) the prices of such commodities, materials, or products are low or are falling; and

(B) the commodities, materials, or products could cause material injury to United States producers of the same, similar, or competing commodities, materials, or products.

(d) COORDINATION OF WORLD BANK ACTIONS WITH ACTIONS UNDER GATT.—The Secretary of the Treasury shall instruct the United States Director of the World Bank to initiate discussions with other directors of such bank and to propose that the bank coordinate its actions more closely with the actions taken by the Contracting Parties to the General Agreements on Tariffs and Trade (GATT) in order to ensure that, if actions taken under such General Agreements have the effect of liberalizing trade, such actions are rewarded by appropriate additional public and private capital from the World Bank.

(e) Cooperation of GATT Parties in Preparation of Country-by-Country Review.—The Secretary of the Treasury shall instruct the United States Director of the World Bank to initiate discussions with other directors of such bank and to propose that, in acquiring information for and in the preparation of the bank's annual country-by-country review, the bank seek the cooperation and the participation of the representatives of the Contracting Parties to the General Agreements on Tariffs and Trade (GATT).

(f) Appointment of Foreign Commerce Officers.—

(1) Appointment.—The Secretary of the Treasury shall work with the appropriate United States government agencies to arrange for the appointment of a foreign commerce officer to serve with each of the United States Executive Directors of multilateral development banks.

(2) Duties of officers.—It shall be the duty of each foreign commerce officer to assist the United States Executive Director with respect to whom such officer has been appointed in carrying out the duties of such Executive Director described in paragraphs (4), (5), (6), and (7) of subsection (c).

SEC. 302. INCREASED TRADE AND INVESTMENT IN DEVELOPING NATIONS.

(a) Multilateral Negotiations.—The President and the Secretary of the Treasury shall seek to continue ongoing negotiations with West Germany, the United Kingdom, France, and Japan (commonly known as the "Group of 5") as well as to initiate negotiations with other countries within appropriate multilateral organizations, including the Organization for Economic Cooperation and Development, in order to—

(1) coordinate macroeconomic policies of the major industrial countries so as to promote non-inflationary economic growth and stable exchange rates;

(2) achieve sustained non-inflationary economic growth and thereby increase the size of the market for exports from the United States and developing countries;

(3) promote growth-oriented economic policies in both developed and developing countries; and

(4) encourage both developed and developing countries to base growth on a balance of foreign and domestic demand and to discourage excessive reliance by those countries on exports for growth.

(b) International Economic or Trade Discussions.—

(1) Declaration of United States objective.—The Congres hereby declares that a key objective of the United States in its participation in economic summits and international meetings on economics or trade is to encourage industrial countries to pursue policies which will promote non-inflationary economic growth and to increase the size of the market for exports from the United States and the developing countries.

(2) Executive actions.—The President and the Secretary of the Treasury shall seek to place discussions with respect to the agreement described in paragraph (1) on the agenda of any economic summit or international economic meeting to which the United States is a party and shall report to the Congress on any success they may have had in achieving such agreement at that meeting.

(c) Purchase of Oil From Developing Countries.—In light of the current dislocation in the world oil markets which has had a significant effect on heavily indebted developing countries which are oil exporters, the Secretary of the Treasury, in conjunction with the Secretary of Energy, shall initiate consultations with Japan, West Germany, France, the United Kingdom, and any other country which holds debt of developing countries for the purpose of examining possible options for reducing the debt burden of developing countries which export oil. Such options should include—

(1) the possibility of increasing the amount of purchases of, and the inventorying of, oil from such developing countries, including Mexico, Venezuela, and Nigeria; and

(2) the possibility of using the oil reserves of such developing countries as collateral for new loans to such countries or as payment for existing debt of such countries.

To the extent appropriate, such consultations should be conducted in conjunction with, and should draw on the expertise of, the International Energy Administration.

Such Secretaries shall periodically advise and consult with the appropriate committees of the Congress on the progress of such consultations.

(d) BARTERING OF AGRICULTURAL COMMODITIES FOR OIL.—The President shall, to the maximum extent possible, arrange for acquisitions of petroleum from debtor developing countries through the barter of surplus agricultural commodities.

TITLE IV—INSURING THE STABILITY OF THE INTERNATIONAL FINANCIAL SYSTEM

SEC. 401. PRIVATE CAPITAL SOURCES FOR DEVELOPING NATIONS.

(a) STUDY REQUIRED.—The Secretary of the Treasury, working in conjunction with the Chairman of the Board of Governors of the Federal Reserve System and the Comptroller of the Currency, shall explore the changes in the structure of United States capital markets and the regulation of private financial institutions which would be necessary in order to bring about a lasting resolution of the international debt crisis in a manner which is consistent with both increased growth in debtor nations and increased stability of the United States financial system.

(b) TOPICS TO BE INCLUDED IN STUDY.—The study conducted by the Secretary of the Treasury, in conjunction with the Chairman of the Board of Governors of the Federal Reserve System and the Comptroller of the Currency, shall include an analysis of the following proposals:

(1) Amendment of the National Bank Act and any regulatory change which may be necessary to permit longer writeoff periods for losses associated with loans to debtor developing countries.

(2) Statutory or regulatory changes which may be appropriate—

(A) to encourage the growth of a secondary market in developing country debt;

(B) to provide security for the existing commercial bank debt of less developed countries; or

(C) to create a discount facility for such debt.

(3) Statutory, regulatory, or treaty changes that would be required to create a new fund or funds to be administered by the multilateral developed banks—

(A) in which shares could be purchased by financial institutions; and

(B) the assets of which would be used to create new lending capacity for developing nations.

(4) Payment of a portion of the debt service obligations of developing countries in local currencies.

(5) Evaluation of any other options which would have the effect of increasing the utilizing of domestic and international capital markets in addition to the commercial banks to provide capital for developing nations, and an assessment of how the World Bank might implement such options.

(c) REPORT TO CONGRESS.—The Secretary of the Treasury, in conjunction with the Chairman of the Board of Governors of the Federal Reserve System and the Comptroller of the Currency, shall prepare and transmit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate before the end of the 3-month period beginning on the date of the enactment of this Act on the advisability of implementing any of the proposals analyzed in the study conducted pursuant to subsection (a) together with any recommendation of such Secretary for legislation which the Congress should consider.

SEC. 402. MOBILIZATION OF PRIVATE CAPITAL.

(a) MULTILATERAL DEVELOPMENT BANK ACTION.—The Secretary of the Treasury shall instruct the United States Executive Directors of the multilateral development banks to initiate discussions with other directors of their respective banks and to propose that—

(1) greater use of co-financing be made by each such bank to encourage increased commercial bank participation in lending by such bank; and

(2) steps be taken to make credits available to satisfy the capital needs of private, income-generating, small businesses of microenterprises owned by the very poorest individuals in the developing countries.

(b) INCREASE IN WORLD BANK'S ROLE AS INTERMEDIARY.—The Secretary of the Treasury shall instruct the United States Executive Director of the World Bank to initiate discussions with other directors of the bank and to propose that steps be taken to increase the bank's role as an intermediary and coordinator in generating new capital and creating new capital instruments, particularly drawing on world securities and capital markets, for the benefit of developing countries.

TITLE V—MULTILATERAL INVESTMENT GUARANTEE AGENCY

SECTION 501. SHORT TITLE.

This title may be cited as the "Multilateral Investment Guarantee Agency Act".

SEC. 502. ACCEPTANCE OF MEMBERSHIP.

The President is hereby authorized to accept membership for the United States in the Multilateral Investment Guarantee Agency (hereinafter in this title referred to as the "Agency") provided for by the Conventional Establishing the Multilateral Investment Guarantee Agency (hereinafter in this title referred to as the "Convention") deposited in the archives of the International Bank for Reconstruction and Development (hereinafter referred to as the "Bank").

SEC. 503. GOVERNOR AND ALTERNATE GOVERNOR.

The Governor and Alternate Governor of the Bank, appointed under section 3 of the Bretton Woods Agreements Act (22 U.S.C. 286 et seq.), shall serve as Governor and Alternate Governor, respectively, of the Agency.

SEC. 504. APPLICABILITY OF BRETTON WOODS AGREEMENT ACT.

The provisions of section 4 of the Bretton Woods Agreement Act shall apply with respect to the Agency to the same extent as such provisions apply to the Bank and the International Monetary Fund. Reports with respect to the Agency under paragraphs (5) and (6) of section 4(b) of such Act shall be included in the reports made pursuant to such paragraphs after the date the United States accepts membership in the Agency.

SEC. 505. RESTRICTIONS.

Unless authorized by law, neither the President nor any person or agency shall, on behalf of the United States—

(1) subscribe to shares of stock of the Agency;

(2) vote for or agree to any amendment of the Convention which increases the obligation of the United States, or which changes the purpose or functions of the Agency; or

(3) make a loan or provide other financing to the Agency.

SEC. 506. FEDERAL RESERVE BANKS AS DEPOSITORIES.

Any Federal Reserve bank which is requested to do so by the Agency shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

SEC. 507. JURISDICTION OF UNITED STATES COURTS AND ENFORCEMENT OF ARBITRAL AWARDS.

(a) VENUE.—For the purposes of any civil action which may be brought within the United States, its territories or possessions, or the Commonwealth of Puerto Rico, by or against the Agency in accordance with the Convention (including an action brought to enforce an arbitral award against the Agency), the Agency shall be deemed to be an inhabitant of the Federal judicial district in which—

(1) its principal office within the United States is located; or

(2) its agent appointed for the purpose of accepting service or notice of service is located.

(b) JURISDICTION.—Any action described in subsection (a) to which the agency is a party shall be deemed to arise under the laws of the United States. The district courts of the United States, including the courts enumerated in section 460 of title 28, United States Code, shall have original jurisdiction of any such action.

(c) REMOVAL.—Whenever the Agency is a defendant in any action in a State court, it may at any time before the trial thereof remove the action into the appropriate district court of the United States in the manner provided in section 1446 of title 28, United States Code.

SEC. 508. FORCE AND EFFECT OF CONVENTION.

Articles 43 through 48 of the Convention shall have full force and effect in the United States, its territories and possessions, and the Commonwealth of Puerto Rico, upon the entry into force of the Convention for the United States.

SEC. 509. FULL FAITH AND CREDIT FOR ARBITRAL AWARDS; JURISDICTION.

(a) IN GENERAL.—Any award of an arbital tribunal resolving a dispute arising under Article 57 or Article 58 of the Convention shall create a right arising under a treaty of the United States. The pecuniary obligations imposed by such an award shall be enforced and shall be given the same full faith and credit as if the award were a final judgment of a court of general jurisdiction of one of the several States.

The provisions of title 9, United States Code, shall not apply to enforcement of awards rendered pursuant to the Convention.

(b) JURISDICTION.—The district courts of the United States (including the courts enumerated in section 460 of title 28, United States Code) shall have exclusive jurisdiction over actions and proceedings under subsections (a) of this section, regardless of the amount in controversy.

TITLE VI—INTER-AMERICAN DEVELOPMENT BANK

SEC. 601. MERGER OF INTER-REGIONAL AND ORDINARY CAPITAL.

The Inter-American Development Bank Act (22 U.S.C. 283) is amended by adding at the end thereof the following new section:

"SEC. 32. The United States Governor of the Inter-American Development Bank is hereby authorized to agree to and to accept the amendments to the Articles of Agreement in the proposed resolution entitled 'Merger of Inter-regional and Ordinary Capital Resources'.".

SEC. 602. WAIVER OF COUNTRY PROGRAM LIMITATIONS UNDER NEW REPLENISHMENT AGREEMENT UNDER CERTAIN CONDITIONS.

The Secretary of the Treasury shall instruct the United States Executive Director of the Inter-American Development Bank to initiate discussions with other directors of such bank and to propose that a provision be included in any replenishment agreement which is negotiated after the date of enactment of this Act which would allow the directors of such bank to waive any country program limitation contained in such replenishment agreement if the directors determine that—

(1) the waiver would not deprive any other country of any resources which are available under such agreement for such country; and

(2) the country for which the waiver would be made has—

(A) a need for the resources which the waiver would make available; and

(B) the capacity to absorb such additional resources.

BACKGROUND

HISTORY OF THE LEGISLATION

H.R. 4574, the International Debt, Trade, and Financial Stabilization Act, was circulated in draft discussion form in early March by Mr. Lundine, Chairman of the International Development Institutions and Finance Subcommittee of the Committee on Banking, Finance and Urban Affairs. Subcommittee hearings were held on the suggested draft bill on March 12, March 18, March 19, and March 20. Testimony was received from the following individuals during these hearings: John Sewell, Overseas Development Council; William Cline, Institute for International Economics; Karen Lissakers, formerly with State Department; Pedro-Pablo Kuczynski, First Boston Corporation; George Clark, Citibank; Riorden Roett, Johns Hopkins University; Paula Stern, International Trade Commission; Alan Wolff, Dewey, Valentine, Bushby, Palmer, and Wood; Stuart Tucker, Overseas Development Council; J.B.L. Pierce, Boeing Corporation; David Mulford, Assistant Secretary of the Treasury for International Affairs; and Harvey Bale, Assistant U.S. Trade Representative.

The Subcommittee on International Development Institutions and Finance of the Committee on Banking, Finance and Urban Affairs met in open session on April 10, 1986. After adopting several amendments to the discussion draft, the subcommittee ordered the text of the proposed discussion draft, as amended, favorably reported to the full Committee on Banking, Finance and Urban Affairs upon introduction into the House of Representatives.

Congresspersons Lundine, Bereuter, LaFalce, Oakar, Levin, Torres, Kolbe and Morrison introduced the discussion draft on

April 15, 1986. The Committee on Banking, Finance and Urban Affairs met in open session on April 22, 1986. After adopting two amendments, by voice vote the Committee ordered the legislation favorably reported, as amended, to the full House of Representatives.

The drafting of this legislation evolved from a year of substantive inquiry into the third world debt crisis by the Subcommittee on International Development Institutions and Finance. Twelve days of oversight hearings were held by the subcommittee beginning in April 1985 which culminated in the issuance of a subcommittee report in October 1985 entitled "Dealing with Debt, Rekindling Development: the U.S. Stake in the Performance of the World's Development Banks".

THE THIRD WORLD DEBT CRISIS

In August, 1982, Mexico announced that it was unable to repay its current debt obligations to foreign banks. That dramatic announcement effectively ended a fast-paced era of commercial bank lending to developing countries which had begun nearly a decade before. During those years, commercial banks, led by U.S. institutions, had lent an unprecedented amount of money to developing nations. The aftereffects of the 1973 oil embargo by the Organization of Petroleum Exporting Countries (OPEC) had produced an enormous imbalance in world financial flows. OPEC nations had huge revenues from the increase in oil prices. Other nations, particularly the energy-poor developing nations, suffered concomitant losses in their national wealth from the increased cost of energy.

As events transpired, the major commercial banks became the intermediaries for the "recycling" of those dollars to developing nations, resulting in a level of sovereign nation indebtedness to commercial banks which in the case of many developing nations became unsustainable in the recessionary economic times of the early 1980's. During that same period, many freshly independent developing nations were embarked on ambitious large-scale development projects aided by bilateral foreign assistance and multilateral development banks. Official public debt, particularly for nations in Africa, added to the total accumulation of debt.

The bubble burst with the 1982 Mexican announcement. Since that time, commercial lending to developing nations has effectively stopped. Given the debt servicing obligations of the developing nations, the net flow of capital in recent years has been out of the energy-poor developing nations and back to the industrialized countries, a historically unprecedented pattern of capital flows. To deal with their debt burdens, these countries have undergone wrenching economic changes. Generally, they have pursued austerity programs under the advice of the International Monetary Fund which involve reducing domestic consumption, restraining internal development and improvements in the standard of living of their people, limitations on imports from other countries and export promotion to acquire the foreign exchange needed to pay their debts.

On one level, those programs have been a success, since many developing nations have dramatically improved their balance of payments, both by expanding their exports and reducing their imports.

Yet those very indices of success in pursuing short-term austerity spell long-term failure for both the developing nations and for the United States. Precisely because they have reduced their imports, their markets have been increasingly closed to U.S. products. Precisely because they have expanded their exports, their products have had an increasing presence in the U.S. marketplace and have contributed to a rise in protectionist sentiment in this country. The combined result is the stark fact that fully one-third of the United States' current trade deficit results from our trade with developing nations. Our trade deficit with developing countries is essentially as large as our much more widely lamented deficit with Japan.

Those same economic facts have dictated conditions which are not tenable over the long term for these nations. The standard of living of many citizens of developing nations today is at or below what it was a decade ago. Politically, these governments are acutely aware that they cannot continue such policies indefinitely. The fragile young democracies of Latin America are particularly at risk if they should be compelled to continue policies that emphasize austerity to the exclusion of a resumption of growth. Moreover, those policies do not lead to development, which is by definition the appropriate national mission of those countries which have not yet achieved a decent national standard of living and material well-being.

This state of affairs is now widely perceived as a new and potentially dangerous phase of the debt crisis. The developing country stake in a new situation which puts an end to constant austerity and indenturing to debt obligations is obvious. The United States stake in a new situation should be just as obvious. The United States now stands at risk in two clear ways. The negative impact on our trade posture from the debt crisis and the resultant austerity programs is hurting our own industries, resulting by some estimates in the loss of 1.6 million U.S. jobs over the past four years. Meanwhile, our banks remain highly exposed. In many cases, the banks are more exposed today than at the outset of the crisis, since lending was rolled over, principal payments have not been made, and even debt servicing has not been accomplished in many cases. U.S. banks now carry approximately $134 billion in loans to developing nations.

It is the fundamental premise of this legislation that the debt crisis in the developing world poses a grace threat first to United States trade and the health of its manufacturing and agricultural industries and second to the safety and soundness of the United States financial system.

The Committee has developed this bill in an effort to address those threats to the economic well-being of the United States. At the same time, it is the view of the Committee that the provisions in this bill are consistent with the long-term interests of the developing nations themselves. Lessons have been learned during the last decade about the process of economic development and about the uses of capital in developing and developed nations alike. While there may not be universal agreement about the nature of those lessons, there is widespread agreement on some changes in economic policy and development emphasis which would benefit the developing nations. The Committee has attempted to draft legislation which simultaneously responds to the economic concerns of the United States just articulated and to the growth and development needs of the debtor nations.

H.R. 4574 has three major components.

First is a series of provisions intended to improve the performance of the World Bank and to expand the resources at its disposal to aid debtor developing nations without additional cost to the United States. The Committee endorses the position that the World Bank should be a catalyst and lead institution in resolving the international debt problem, with assistance from other multilateral development banks.

Second is a series of provisions designed to increase world trade and liberalize the trade regimes of the developing world in conjunction with assistance to them in reducing their debt burdens. This portion of the bill also contains provisions intended to improve the United States' performance in acquiring procurement opportunities arising from the development activities of the multilateral development banks. Finally, the bill also calls for greater burden-sharing by other industrialized nations in attempting to resolve the debt problem.

Third, the bill calls upon the Treasury Department in conjunction with the Federal Reserve Board to evaluate the options which the Congress should consider to deal with the commercial aspects of the debt situation. The study is to be transmitted to the Banking Committee within three months of enactment so that further consideration of this crucial aspect of the debt situation and its impact on the safety and soundness of the U.S. banking system can proceed.

PROVISIONS OF THE BILL

Increasing World Bank Effectiveness

The legislation requires the Secretary of the Treasury to instruct the U.S. Executive Director of the World Bank to pursue several policy initiatives with other member countries of the Bank. The intent is to create a more effective institution better suited to addressing the particular problems associated with the large external debt accumulated by many of the developing countries.

The bill envisions a new role for the World Bank as a catalyst for mobilizing resources and fostering economic and development policies necessary for future growth in the developing countries. The Bank is the institution best suited to lead and coordinate a continuing effort to ease and untimately help solve the debt crisis. The World Bank and the regional multilateral development banks are critical to the success of the developing countries in achieving the economic growth necessary for these countries to begin improving living standards.

At the same time, the Committee does not advocate abandonment of the traditional role of the World Bank and the other multilateral development institutions. Developing country direct investments such as that provided by MDB financed projects continue to be of extreme importance. Project financing must continue to be an integral function of the banks both because those projects foster economic growth and because they directly enhance the quality of life for so many people in the developing countries.

Rapid Loan Disbursements

Section 201 of the bill recommends two policy changes, of limited duration, intended to generate more rapid disbursement of MDB project loans. The first advocates that the United States encourage the full release of committed loan funds financed by the World Bank at the time the first tranche payment would normally be forwarded to the borrower country. The funds would be released to the central bank of the borrower in cases where the Bank determined that rapid disbursement was appropriate and when a fast-forwarding of the disbursement schedule was requested by the country. The bill urges the U.S. representative to the Bank to seek an end to this rapid disbursement program after a period of four years. The full release of such commited but undisbursed loan funds would, however, be subject to the following conditions.

—The establishment and maintenance of adequate accounting safeguards to ensure that all terms of the respective loan agreements are upheld;

—That the recipient country presents the World Bank with detailed information on how the additional funds received under an accelerated disbursement schedule will contribute to long-term economic growth;

The second major provision of this section calls on the U.S. to advocate that the multilateral development banks finance an increased percentage share of already approved project loans. Currently the banks finance most or all of the foreign exchange component of the project cost and the borrowing country furnishes the remainder or counter-part financing. Under the formula stipulated in the legislation the banks would agree to finance a portion of the counter-part funding requirement. The advantage of such an approach would to free up some foreign exchange, currently being set aside to meet counter-part funding requirements, for other uses. The Committee believes that this would allow greater leverage of limited capital for internal investment purposes.

The purpose of the rapid disbursement plan highlighted above is to present the opportunity to the develolping countries of accessing larger amounts of investment capital in the short term. Presently, the developing countries are facing a significant shortage of the hard-currency reserves necessary to purchase needed imports or to provide adequate internal investment. In order to achieve the economic growth necessary to improve standards of living in the LDCs *and* meet their debt service obligations investment capital is needed on a scale not currently being realized from private and public sources. The World Bank in particular has the resources available to successfully implement a short-term, rapid disbursement schedule.

The Committee is aware of the potential risks involved in fast-forwarding loan disbursements. The present gradual disbrusement schedule helps to ensure that the funds loaned are used for their intended purpose and that procurement guidelines are followed. However, the Committee believes that it is possible to implement accounting safeguards which will give the borrower country earlier use of the additional financing that would be provided. In addition, while the Bank *might* realize a lessened degree of leverage with respect to a particular project, irresponsible use of rapidly disbursed funds by a borrower country would likely make it more difficult to gain access to additional Bank lending in the future.

The combined impact of the two mechanisms outlined above would be significant over the short to medium term. At a time when decreased development capital flows to the developing countries are making it extremely difficult for these countries to generate the economic growth necessary, rapid loan disbursements, and higher project cost financing will serve to ameliorate present capital inadequacies.

Structural Adjustment Lending

The bill directs the Secretary of the Treasury to instruct the U.S. Executive Director of the World Bank to increase the amount of structural adjustment lending currently being undertaken by the Bank. It calls for this increase in structural adjustment lending to be additional to the ongoing role of the Bank in financing specific development projects. This section also requires the United States to pursue the establishment within the World Bank of a fund for the purpose of making small-scale credit available to low-income entrepreneurs in the developing countries. Finally, the legislation calls on the Secretary of the Treasury to report within a year on the efficacy of structural adjustment lending in encouraging the developing countries to undertake economic reform. This report must also include information on the impact of structural adjustment lending on the lowest income groups in the LDCs.

Structural adjustment lending is designed to support developing countries who undertake needed macro-economic reforms which lead to more efficient and sustainable development. It is now generally acknowledged that some of the domestic policies in place in the developing countries have served as a significant impediment to development. The domestic policy mix in each of the developing countries has become more critical in the 1980's because of the impact of external factors such as radically lower commodity prices, historically high real interest rates, lower external capital inflows and the worldwide recession of the early 1980's. The World Bank's structural adjustment lending program serves to help countries make the economic adjustments necessary to encourage internal investment and expand economic growth through the more efficient use of available resources. The foreign exchange provided by the loan itself is intended to moderate the sometimes negative impact over the short-term brought on by implementation of these economic reforms.

Many of the developing countries recognize that long-term economic policy reforms are needed, but they are reluctant to undertake these reforms because of the internal political and social difficulties of doing so. Because the adjustment process can often be a painful one and may impact disproportionately on the lowest income groups, the Committee believes that the Bank should develop new innovations to minimize this adverse effect. One innovation, specified in the bill, requires the creation of micro-enterprise lending guarantee arrangements to encourage private-sector lending to small-scale entrepreneurs. Additional approaches not specifically outlined in the bill could include seeking alternative funding sources for domestic programs which benefit particularly vulnerable groups such as small-scale agricultural producers or basic-health care providers.

The Committee believes that structural adjustment lending should be consistent with environmentally sound development practices including the sustainable long-term management of natural resources. Domestic policies in the developing countries as well as specific development projects encouraged by official development agencies which disregard or minimize the environmental impact of development can produce negative consequences for long-term growth just as much as can inefficient macro-economic policies. Developing countries today are experiencing resource deterioration—deforestation, soil erosion, desertification, and the like—which negatively affects their future agricultural productivity, energy supply, water quality, and other necessities of sustained development. The debt crisis places an additional premium on sound resources management: lending for development or structural adjustment should be carefully scrutinized with this criterion clearly in mind, and past gains in resource conservation and environmental protection should be preserved. The Treasury Department should therefore continue to seek enhanced emphasis on environmentally sound development within World bank lending programs.

This section also calls on the United States to seek the establishment of a small-scale credit program fund within the World Bank. Testimony received by the Subcommittee on International Development Institutions and Finance indicated that a great deal of entrepreneurial initiative exists among the poorest income groups of the developing countries but that this initiative is often stifled because these low-income groups have inadequate access to credit. Programs which have provided access to credit for relatively small borrowers have enjoyed significant success with comparatively low incidences of default. However, the lenders currently present in most of the developing countries are much more oriented to large borrowers, loans to whom tend to be more profitable. The Committee therefore believes that establishing a specific program within the World Bank to help meet the needs of small-scale borrowers would be a necessary and worthwhile addition to its lending program. The fund established in the Bank while likely to relatively small in size could help provide financial incentives for countries to maintain small-scale credit programs as well as providing technical assistance.

The Committee believes that the reporting requirement will be a useful tool in at least two respects. First it will serve to keep the Congress better informed on both the efficacy and impact of structural adjustment lending. Second, the reporting requirement will provide the Treasury Department with an opportunity to make a thorough analysis of this type of lending program and thereby help govern future U.S. policy in this area.

Reducing Capital Flight

The first provision of this section states that it is the sense of the Congress that past and continuing transfers of capital from the developing countries is a major component of the ongoing debt crisis. It calls on the U.S. Executive Director of the World Bank to initiate discussions at the Bank to generate the development of proposals which would help these capital transfers through the enhancement of incentives to invest funds domestically rather than externally. The second provision instructs the U.S. Executive Directors to the multilateral development banks to seek an increase in each bank's financial sectoral lending program.

Reducing the incidence of capital flight from the developing countries must be considered a priority in the policy advisory role undertaken by the MDBs. Capital flight has contributed significantly, in the case of some countries as much as 50%, to the external debt of the developing nations. This condition exacerbates debt servicing difficulties as well as dramatically reducing available internal investment resources. Part of the reason for the large investment of capital invested outside the developing countries is the attractive investment climate generally in the industrialized countries, particularly the United States. However, this condition clearly implies the other part of the problem—there are in place in the developing countries themselves numerous disincentives to keeping capital at home.

The Committee believes therefore that much of the flight capital problem can be alleviated through the active participation of the multilateral development banks. The banks can do this by transmitting policy advice and through direct encouragement of financial sector reforms via their sectoral lending programs. Through such means as encouraging and helping to actually establish or enlarge capital markets and enhancing savings incentives in the developing countries the MDBs can help discourage capital flight from the developing countries.

Increasing World Bank Lending Resources

The legislation requires the Secretary of the Treasury to enter into negotiations with the other member countries of the World Bank to seek the establishment of a new World Bank lending affiliate. This section further provides that the Secretary of the Treasury report on the need for a general capital increase for the World Bank.

The Subcommittee on International Development Institutions and Finance initially considered advocating a change in the overall gearing ratio of the Bank from the present 1:1 to as much as 2:1. However, the Subcommittee received testimony from a number of expert witnesses which suggested that this means of expanding the Bank's lending capacity was not advisable at this time. Their reason for opposition to such a gearing ration change was the projected adverse reaction of current and potential investors of World Bank bond issues. Witnesses also noted the serious technical difficulties arising from a change in the gearing ratio, including the need to establish a two-tiered bond issuance system based on those bonds outstanding versus those to be issued under a new gearing ratio. The conclusion of the Committee is therefore that the potential risk involved in a change in the Bank's gearing ratio with the possible result of a significantly higher cost carried by the loans extended to the developing countries makes it unadvisable to change the gearing ratio at this time.

The creation of a new World Bank lending affiliate more highly leveraged than the present gearing ratio allows the Bank to be is considered by the Committee to be a worthwhile means of directing more investment capital to the development countries. In addition, it provides a valuable means of gaining operating experience with a development bank using a more highly leveraged gearing ratio than 1:1. The bill provides that this new affiliate would operate with up to a 5:1 gear ratio initially capitalized with $1 billion from existing World Bank resources. If its initial captalization were leveraged at 5:1 the new affiliate would effectively generate an additional $4 billion in new lending to the developing countries. The creation of this institution would not require any new expenditure by the U.S. government.

The Committee does not envision that this new lending affiliate would generate a loan portfolio different from the World Bank itself. Its loans would be expected to receive the same careful scrutiny of those offered by existing Bank lending programs and would be designed to achieve the same purposes. The Committee would also make clear that neither the capitalization nor the operations of this new affiliate are intended to detract from the existing operations of the Bank. Capitalization should not affect any contribution the Bank might make from operating profits to IDA or the Special Facility for Sub-Saharan Africa.

Establishment of a new Bank affiliate is not intended to preempt in any way the potential consideration or negotiation of a General Capital Increase for the World Bank. As indicated by the above discussion this new experimental entity will be limited in scope and in its ability to generate additional capital resources. Its creation is distinct from any possible need for a General Capital Increase.

This section of the bill also requires the Secretary of the Treasury to conduct a study on the need for a General Capital Increase for the World Bank. The study is to be completed and a report made to Congress on the findings of that study no later than 60 days after enactment. The report to Congress is to include a detailed explanation of the need for a GCI and when such an increase might be submitted to the Congress. In addition, the report should discuss the feasibility of structuring a capital increase exclusively with callable capital.

The Committee believes that the expanded role to be undertaken by the World Bank in helping ease the effects of the debt crisis, as well as the lessened availability of sources of external finance to which the developing countries have access, has increased the likelihood that a capital increase for the Bank will be negotiated. A study and report on this issue will help serve to keep the Congress better informed as to the reasons for such an increase should it prove to be necessary. The thorough analysis of the feasibility of undertaking a GCI with no paid-in capital component and consequently no budgetary impact for the United States would also assist in Congressional and Administration deliberations on the budget deficit.

Increasing World Trade and Economic Growth: U.S. Policy Objectives

Section 301 of the bill states the sense of the Congress that expansion and liberalization of trade can make an important contribution to developing nations and to sustained growth throughout the world. To help achieve this goal, the bill establishes a policy for the United States which requires that any assistance provided to developing nations from the United States be consistent with and supportive of long term trade liberalization in those countries and in worldwide markets.

The Committee believes that U.S. trade policy must be carefully articulated in law. In the past, the United States has failed to articulate a consistent policy on the critical link between the outstanding debt of the developing world and the health of the international trading system. While the recent Baker initiative announced in Seoul, Korea last October, is a refreshing attempt at policy articulation by the Reagan Administration on the developing country debt problem, it still lacks clarity, notably in the key area of trade policy. Congress must assume increased responsibility for policy articulation in this critical area to insure appropriate consistency in U.S. efforts over time.

The Committee believes that increasing the volume of world trade and stimulating worldwide economic growth is essential to bring about a lasting resolution to the debt crisis in the developing world. Trade is the engine for world growth. The expansion of trade stimulates growth by opening new markets and improving economic efficiency. In each year since the end of World War II, trade has expanded more per year than world output.

The policy objectives set forth in Section 301 of the bill reflects a deep concern of the committee over the fact that trade expansion and economic growth have become secondary goals to the debt servicing needs of developing countries. To earn foreign exchange to service their debts, developing countries have expanded exports while severely constricting imports. This has slowed growth and development in their own economies and prevented an expansion in volume of two-way trade with other nations. If this pattern persists, we believe it will eventually have a serious negative effect on world growth.

The problem was summed up accurately by Alan Wolfe, former Deputy U.S. Trade Representative, in his March 19th testimony on this legislation:

> The function of the international financial system seems to have become inverted. In the 1970's, the international financial system existed to finance trade and development. In the 1980's, trade exists to a large degree to service the debt accumulated during and up to the 1970's. As a result, the growth of developing countries has been curtailed and a great source of growth in world prosperity during the 1960's and 1970's has been prevented from performing this role in the 1980's.

The committee realizes that the policy objectives set forth in the bill cannot be achieved overnight. Heavy indebtedness in the developing countries makes achievement of trade and growth objectives in developing countries particularly difficult. Nevertheless, the policy objectives set forth in this legislation are properly ordered. We must give the highest priority to trade expansion and economic growth in the future. This will reap long term benefits for both developing and developed nations of the world.

The U.S. economic interest in such a reordering of priorities is clear. One third of the unprecedented $150 billion 1985 U.S. trade deficit was with developing countries. This is an amount equal to 1.4 percent of the U.S. gross national product. The Overseas Development Council estimates that nearly 1.6 million U.S. jobs—or nearly 19 percent of official U.S. unemployment—have been lost since 1980 due to the recession in the developing world. The U.S. manufacturing sector, in particular, has been hard hit by the growth crisis in the third world. Eight of the ten largest U.S. manufacturing export industries showed declines in exports to the third world between 1980 and 1984.

Expanding world trade and stimulating growth through the Multilateral Development Banks

The Committee believes that the multilateral development banks have a key role to play in expanding world trade and stimulating growth. Section 301(c)(1) of the bill directs the Secretary of the Treasury to instruct the United States Executive Directors of the multilateral development banks to initiate discussions with other directors of their banks to propose that all new loans or guarantees be consistent with, and in all feasible cases be conditioned upon, the reduction of existing trade and investment barriers or limitations on access to the markets of developing countries. Section 301(c)(2) of the bill further instructs the U.S. Executive Director to vote against any loan which would be inconsistent with the long term advancement of trade liberalization and increased marekt access within developing countries.

The Committee believes that additional public and private resources are necessary to put developing countries back on a growth path again. But we also believe that the *sine qua non* for these resources must be increased trade and investment opportunities in developing countries for the United States and others around the world. (With respect to direct investment, see also the discussion below on Sections 501-509 on the proposed Multilateral Investment Guarantee Agency).

The Committee gave very careful consideration to the advisability of including in law a strict prohibition against the U.S. voting of loans which are inconsistent with trade liberalization. We realize that is it not possible or desirable for developing countries to remove all of their barriers to trade and investment over the short term. We also realize that in some instances trade and investment barriers play an important developmental role necessary to stimulate long term growth in developing economies.

At the same time, the Committee regards the trade conditionality in developing countries have pursued protectionist economic policies that are harming their own economic development as well as limiting U.S. exports. The strong reliance on excessive import substitution, infant industry protection, investment performance requirements and severely restrictive import quotas in many of these countries is counterproductive to their own long term economic interests.

When analyzing proposed loans to these countries which have a bearing on some aspect of trade policy, then Committee expects the U.S. Executive Director to vote against loans or loan guarantees which increase trade and investment barriers in a developing country, or involve the perpetuation of an existing trade or investment barrier which cannot be justified as part of an overall developmental policy for that country which contributes to international economic growth.

The Committee understands that it is not possible to require that every loan or loan guarantee through the multilateral development banks include a particular trade liberalization component to the loan. The committee does not intend for the U.S. to vote against individual loans which would not normally be expected to involve some trade component. The committee understands that the decision on how the U.S. will vote on such loans must be determined accordingly to other criteria specified in the law.

Improving U.S. Procurement Opportunities in the Developing World

U.S. firms have access to considerable business in developing countries because of the projects and funding made available through the World Bank and other multilateral lending organizations. In 1984, U.S. procurement related to World Bank projects in developing countries totaled over $800 million. These procurement activities constitute exports and help to reduce the U.S. trade deficit.

While this is an impressive record, the Committee believes that we are losing many competitive opportunities associated with multilateral development bank lending to our foreign trading partners. The comparatively more aggressive pursuit of export opportunities on the part of some of our major trading partners is reflected in procurement shares as a percentage of contribution to these lending institutions. The United States contributes 20% of the total funds to the World Bank and gets back 16.9% of total procurement of that institution. In contrast, the French contribute 5.5% of total funds, but receive 6.8% back in total procurement, and the Japanese contribute 6.5% of total funds to the World Bank, but get back 17.1% of total procurement. It is clear that expanded export opportunities are available through the multilateral development banks for U.S. firms.

Section 301(f) of the bill mandates the Secretary of the Treasury to work with the appropriate U.S. government agencies to arrange for the appointment of a foreign commerce officer to serve with each of the United States Executive Directors of the multilateral development banks. The primary mission of these individuals will be to promote opportunities for export of U.S. goods and services. The bill mandates that the U.S. Executive Directors to the multilateral development banks take the necessary steps to assure that U.S. firms are fully informed of and assisted with bidding opportunities in countries receiving loans from multilateral development banks and to see that any complaints from U.S. bidders regarding multilateral development bank contracts are full investigated to insure fair treatment of U.S. firms.

The Committee intends the Secretary of the Treasury to assume the primary responsibility for seeing that the directives in the bill relating to procurement are fully implemented. While we believe it necessary and desirable for the Treasury to involve and coordinate with other agencies of the government to achieve the prescribed mandate, we intend to hold the Department of the Treasury full accountable for future procurement performance.

Increasing World Bank-GATT Cooperation

Subsections 301 (d) and (e) of the bill direct the Secretary of Treasury and U.S. Executive Director of the World Bank to take actions to achieve closer coordination of World Bank programs with actions taken by the Contracting Parties to the General Agreements on Tariffs and Trade (GATT). The Committee believes that actions taken under the General Agreements on Tariffs and Trade which have the effect of liberalizing the trade regimes of developing countries should be rewarded by additional developmental assistance from the World Bank. In addition, the bill urges that the World Bank strive to take maximum advantage of the expertise of GATT personnel in conducting the country-by-country reviews associated with expanded structural adjustment lending advocate in this bill.

The Committee believes that the GATT possesses the trade expertise necessary to make judgments regarding the trade policies of developing countries which should be evaluated as a condition for increased debt assistance or relief. The committee also believes that the World Bank should make increased efforts to ensure that commitments by developing countries to long term trade liberalization are communicated to the Contracting Parties of the General Agreements on Tariffs and Trade for their consideration.

The Committee believes that developing countries have an important stake in another round of trade negotiations under the General Agreements on Tariffs and Trade. The outcome of those negotiations will have a key role to play in the future management of the debt overhang presently inhibiting growth in the developing world. The committee is concerned about the present reluctance on the part of developing countries to participate actively in another round of trade negotiatons under the G.A.T.T. If the World Bank is to adequately perform its new role as a catalyst for resolving the growth crisis in the developing world, it must encourage greater participation from developing nations in the G.A.T.T.

Liberalization and rationalization of developing country trade regimes through the G.A.T.T. process will not only have beneficial effects for developing countries through enhanced economic efficiency, but can also serve as an important mechanism to forestall greater protectionist tendencies in industrialized nations.

Responsibilities of the Developed Nations—Greater Burden Sharing

The Committee recognizes that the United States and other developed nations have a responsibility to pursue appropriate economic policies. Section 302 of the bill declares it to be a key objective of the United States, in its participation in economic summits and international meetings, to encourage industrial countries to pursue policies which will promote non-inflationary economic growth and facilitate trade. In this regard, the Committee recognizes that the United States has a responsibility to minimize trade actions which inhibit free trade.

The President and Secretary of Treasury are specifically directed to seek negotiations with West Germany, the United Kingdom, France, and Japan to coordinate macroeconomic policies to promote non-inflationary growth and stable exchange rates, to increase the size of the market for exports from the U.S. and developing countries, to promote growth-oriented economic policies, and to encourage both developed and developing countries to base growth on balanced foreign and domestic demand.

The Committee feels that other leading industrialized nations, particularly Japan and the European Community, must assume larger burden-sharing for the problems of developing countries. The Committee feels that the United States has done more than its fair share to bear the burden of the debt of the developing world. The United States is the most open market in the world to manufacturing exports from developing countries. In 1984, the United States bought 62 percent of all manufactured products shipped by developing countries to the industrialized world. In contrast, the European community bought 23 percent, and the Japanese only 8 percent. As pointed out by Harvey Bale, Assistant U.S. Trade Representative, in his March 19 testimony on this bill, "exports of manufacturers are critical for LDCs both because their prices are less subject to fluctuation than commodities and because expanding manufacturing production is so important to the development process."

Section 302(c) of the bill specifically directs the Secretary of Treasury to work in conjunction with the Secretary of Energy to initiate consultations with Japan, West Germany, France, the United Kingdom, and any other country which holds debt of developing countries to explore options for reducing the debt burden of developing countries which export oil. The Committee is deeply concerned that the recent fall in oil prices will have a severe impact on the ability of oil exporting debtor nations to cope with their debt problem. The Committee feels that industrialized countries should make every effort to purchase additional oil from these countries for stockpiling. Among the debtor nations critically affected by the drop in oil prices are Mexico, Venezuela, Nigeria and Equador.

In addition, the Committee urges consideration of innovative ways of using the oil reserves of developing countries as collateral for new loans to developing countries or as payment for existing debt of such countries. In this respect, the Committee urges the Secretaries of Treasury and Energy to work with the private banks to explore implementation of such strategies. In addition, the Committee urges the Secretary to draw on the expertise of the International Energy Administration in coordinating international strategies by the industrialized natios for the purchase of oil from the developing world. We believe that such coordination can increase the energy security of the United States and our allies.

Should the United States agree to purchase additional oil from developing countries as part of this international strategy, the bill directs the President, to the maximum extent possible, to arrange for acquisitions of petroleum from debtor developing countries through the barter of surplus agricultural commodities. The Committee recognizes that this will not be possible, or advisable, in every instance, but does expect this option to receive active consideration in discussions with oil exporting debtor developing countries. In particular, the Committee emphasizes that it is not our intention to force oil-producing nations to accept agricultural goods that they are not currently purchasing and that do not contribute to the economic well-being of the country. The Committee does not intend any such bartering to adversely affect necessary incentives for local producers to grow agricultural commodities needed by that country.

Providing Private Capital to Developing Nations

The Committee view is that private capital sources bear a responsibility to provide a major component of the capital needed by the developing world. The paradox inherent in the debt situation is obvious. These developing nations are in debt trouble because they have already borrowed excessively, or used their past borrowings unwisely. Yet the clearly must have additional capital if they have any hope of resuming sustained growth and regaining a sound economic footing over the long-term. Some of that additional capital can only come from still more borrowing, whether from public or private sources.

The debtor nations' situation is analogous to that of an insolvent private company which must borrow additional capital from its creditors in order to reorganize and achieve long-term financial viability. Private banks are accustomed to lending in those circumstances when they are persuaded that the management of the indebted company is now pursuing appropriate policies.

Since the announcement of the Baker initiative last October, a number of major U.S. commercial banks have indicated their willingness in principle to extend additional financing to indebted developing nations. In practice, negotiations are being actively pursued between committees representing the creditor commercial banks and a number of the individual debtor nations. Those negotiations are intended to culminate in multi-year rescheduling agreements (MYRA's) affecting existing debt. Some of the MYRA's recently consummated are characterized by lowered interest rates, stretched-out repayment terms and new grace periods for loan repayments.

To date, these renegotiations of outstanding debt have continued on an *ad hoc* or country-by-country basis that typified the response to the debt crisis during its first phase beginning in 1982. The Baker initiative, despite its rhetorical commitment to a major commercial bank component in a comprehensive resolution of the debt situation, has not yet succeeded in altering this fundamentally *ad hoc* approach.

It is the view of the Committee that the magnitude of the developing country debt held by U.S. commercial banks requires a more clearly articulated and genuinely comprehensive response. While a number of banks have taken steps to reduce their exposure from international lending, the overall exposure of U.S. banks remains extremely large. As noted earlier, some $134 Billion is now owed to U.S. commercial banks by developing nations. And, as just noted, it will be necessary for this exposure to grow in some cases in order for these countries to regain viability as economic partners and attempt to repay their debts.

In this context, the Committee is persuaded that the Treasury Department and the banking regulators have a responsibility to carefully and completely evaluate the options for regulatory or statutory change which should be considered by the Congress in order to deal with this outstanding commercial debt accumulated by the developing nations. Section 401 instructs the Secretary of the Treasury, in conjunction with the Chairman of the Board of Governors of the Federal Reserve System and the Comptroller of the Currency, to conduct a study with that objective.

The Committee intends for the Secretary to work closely with both the Federal Reserve Board and the Comptroller in evaluating the options for dealing with developing nation debt held by commercial banks. The Committee would also emphasize the language in Section 401(a) of the bill which states the purpose of the study is to explore changes which might be necessary for a lasting solution to the debt crisis "consistent with both increased growth in debtor nations and increased stability of the United States financial system."

Toward that end, the Committee intends for the Secretary to conduct a wide-ranging study which examines those options specifically enumerated by the Committee and any other options which plausibly could achieve the objective just described. Among the topics specifically mandated for study are longer writeoff periods for losses associated with developing country debts, encouragement of a secondary market for such debt, creation of a discount facility for developing nation debt, or creation of a new fund or funds to be administered by the multilateral development banks. The bill also specifically directs the study to address the possible role of the World Bank in any options evaluated by the study for increasing the utilization of domestic and international capital markets beyond the commercial banking industry.

During Committee consideration of the bill, an amendment was offered by Rep. Schumer and rejected by voice vote which would have mandated a study of the debt problem by the Federal Reserve with two goals: first, to achieve an actual writeoff of existing developing country debt held by commercial banks; and second, to calibrate that writeoff so that debtor countries will not be required to spend more than 25 percent of their annual export earnings on debt servicing payments. The Committee rejected that approach for several reasons. First, for the Congress to legally permit any class of debtors to limit their debt servicing payments based on their ability to pay would be an extraordinary precedent which almost certainly would invite other classes of debtors to seek similar treatment. The end result of that process would raise serious questions both for the safety and soundness of the banking system and for the reliability of private commercial contracts in general.

Second, even if the general concept of limiting the developing nations' obligation to service their debts based on their ability to pay in any given year were acepted, there was no agreement within the Committee that the 25 percent figure was an appropriate level. It was pointed out in debate, for example, that some debtor countries are currently servicing their debts at a higher proportion of their export earnings than the 25 percent figure. Legislating a lower limit would needlessly curtail their payments without a clear rationale. On the other hand, some nations admittedly are in such poor financial straits that they might have difficulty even maintaining the 25 percent level while simultaneously achieving sustained growth. Only a small number of countries have unilaterally limited their debt service payments to a percentage of their export earnings, and they do not agree on the 25 percent figure. A further argument against the linkage of export earnings and repayment requirements is that such a link could act as a development disincentive since debtor nations could understandably make the judgment that protecting inefficient industries and failing to develop new industries would not be economically penalized.

Third, Members of the Committee were not persuaded that the need for any accelerated or mandated writeoff by commercial banks of these debts has yet been established. The ongoing process of country-by-country negotiations mentioned above has avoided outright defaults to date. Moreover, the debtor nations themselves have not taken the public position that there should be such an enforced writeoff of their underlying obligations, but have focussed instead on achieving assistance in meeting their cash-flow problems associated with the servicing of that debt. In that regard, it is important to make the distinction between repayment of debt principal and servicing of the interest obligations associated with these loans. The official position of most developing country governments is not that they should be relieved of their underlying obligations eventually to repay the principal amount of their loans. Instead, it is their position that they need assistance in the near-term in servicing the interest payments on the loans.

In rejecting the proposed amendment, the Committee nevertheless agrees that the issues raised by the amendment, including the issue of whether there should be any link between a country's export earnings and its debt servicing and whether some accelerated writeoff of these loans is necessary, are important issues worthy of careful evaluation within the Treasury study mandated by the bill. The Committee therefore expects the Secretary, the Chairman of the Federal Reserve and the Comptroller to address those issues fully in the study.

The bill directs the Secretary of the Treasury to transmit the report to the House and Senate Banking Committees within three months of the enactment of this legislation.

Section 402 in addition calls upon the Secretary of the Treasury to instruct the U.S. Executive Directors of the multilateral development banks to initiate discussions with their counterparts in the Banks to propose greater use of co-financing in order to achieve enhanced commercial bank lending to developing nations. Finally, the section calls for U.S. leadership in the World Bank in increasing the Bank's role as the originator and coordinator in generating new capital and capital instruments to benefit developing countries.

Multilateral Investment Guarantee Agency

At the request of the Administration the Committee included authorizing language for U.S. participation in the Multilateral Investment Guarantee Agency (MIGA). However, the sections of the Administration request which would actually authorize the United States to subscribe to and pay for its negotiated number of shares in MIGA were deleted from the reported legislation. While the Committee supports U.S. participation in the MIGA it believes that no budgetary authority is necessary at this time.

The MIGA is an international institution affiliated with the World Bank and designed to encourage the flow of direct investment to the developing countries. It will issue guarantees against non-commercial risks, carry out a wide range of activities to promote direct investments, and encourage sound investment policies in member countries. The Committee believes that it will help strengthen the private sector in the LDCs and will help to ultimately alleviate some of the pressure being experienced by the developing countries to take on more debt by replacing debt with equity investment.

It will provide political risk insurance against loss in the event of expropriation, war and civil disturbance and certain breaches of contract. MIGA will also cover currency transfer risks. Its expropriation insurance will cover not only outright expropriations, but also "creeping expropriations," such as regulatory measures which are in fact expropriatory. This provision of insurance coverage should help stimulate otherwise sluggish current foreign direct investment flows.

In its financial operation and organizational strucutre the MIGA will be similar to the multilateral development banks. It will operate on sound financial principles and insure only economically viable projects. Developing countries as shareholders will have a significant financial stake in the success of the MIGA. Voting in the MIGA will be linked to the total number of subscribed shares, with developing countries having a specified percentage of the votes during a three year transition period.

Inter-American Development Bank Merger of Inter-Regional and Ordinary Capital

This provision was included as requested by the Administration. Because this capital merger requires an amendment to the charter of the Inter-American Bank Congressional action is required. This change will strengthen the financial position of the Bank but does not alter the institutions character or purposes.

Prior to 1976, the IDB had only an ordinary capital window, and covenants in certain long-term borrowings prevented total IDB borrowings from exceeding the callable capital of the United States. When the IDB's Articles were amended in 1976 to permit entry of non-regional countries, IDB Members decided to create a new capital window—inter-regional capital—to permit the IDB to borrow against the capital of these new members. The long-term ordinary capital borrowings are expected to be retired by the end of 1986.

The IDB therefore would like to merge the ordinary and inter-regional capital Merger will mean a single capital window backed by consolidated resources and possibly improved access to financial markets on more favorable terms.

Waiver of Country Program Limitations Under Certain Conditions

This provision, adopted by the Committee in the form of an amendment offered by Mr. LaFalce, would permit the waiver of negotiated country limitations to access IDB lending if the Executive Directors agree to do so. This initiative is applicable to the U.S. negotiating position for the next IDB capital increase negotiations.

Under the present capital increase agreement negotiated several years ago various IDB borrower countries are limited in how much IDB lending they may receive during the life of the capital increase. This limitation was agreed to in an effort to protect countries' access to IDB lending, particularly the smaller latin countries. This formula has, however, proved to be somewhat inflexible in cases where the absorbative capacity of a country for IDB lending has been reached but when another may be able to use the lending resource but cannot gain access due to the limitations imposed by the agreement.

This provision would therefore allow the waiver of such a limitation provided that agreement to such a waiver would not deprive any other country of any resources which are available under the formula adopted upon negotiation of the increase in resources and the country for which the waiver would be made has a need for the resources made available and the capacity to absorb such additional resources.

SECTION-BY-SECTION SUMMARY AND DESCRIPTION OF THE LEGISLATION AS REPORTED

Section 1. Short Title.—The bill has the short title of "International Debt, Trade, and Financial Stabilization Act"

Section 2. Purposes.—The purposes of the bill are to alleviate the international debt crisis, expand the world trade system, increase the stability of the world financial system, and provide policy direction to the Secretary of the Treasury regarding the U.S. role in the World Bank and other multilateral development institutions.

Section 3. Definitions.—This section provides necessary definitions of multilateral development bank, World Bank, structural adjustment lending, and trade liberalization.

TITLE I—MEASURING THE IMPACT OF THE DEBT CRISIS ON WORLD TRADE, DEVELOPMENT, AND FINANCIAL STABILITY

Section 101. Findings.—This section makes findings to support the purposes of the bill. In general, it finds that the debt crisis is a threat to the health of the world trading system, stability of the international financial system, and economic growth prospects of the developing world. It finds that the Baker initiative on developing country debt was a positive policy shift which will require an enhanced role of the World Bank and an increased commitment of public and private resources in order to be implemented successfully.

TITLE II—INCREASING WORLD BANK EFFECTIVENESS

Section 201. Rapid Loan Disbursements.—This section requires the Secretary of the Treasury to instruct the United States Executive Director of the World Bank to do two things to increase the flow of capital into developing countries. It requires, first, that that U.S. Executive Director propose that a temporary adjustment be made in the disbursement practices of the World Bank to permit the full release of committed loan funds to the central banks of developing countries. In order to receive accelerated disbursement, recipient countries would have to put in place accounting safeguards to insure that the terms of project loan agreements are preserved, and describe how accelerated disbursement would contribute to economic growth. Second, the U.S. Executive Director would be required to propose that the bank's share of project loans could be increased in certain circumstances.

Section 202. Structural Adjustment Lending.—This section directs the U.S. Executive Director of the World Bank to propose an increase in structural adjustment lending. It requires the Secretary of the Treasury to transmit to the Congress a report on the effectiveness of increased structural adjustment lending one year after enactment.

This section also instructs the U.S. Executive Director of the World Bank to advocate a small-scale credit program for low-income individuals who have limited access to credit and to advocate the creation of small-scale credit funds within the central banks of developing nations receiving structural adjustment loans.

Section 203. Reducing Capital Flight.—This section states a sense of the Congress that reducing capital flight from developing countries is an essential prerequisite to resolving the developing country debt crisis. It directs the U.S. Executive Directors of the World Bank to develop proposals for both developing and developed countries to minimize capital flight from developing nations, and to propose increased lending by the World Bank to reform the financial sectors of developing countries to enlarge capital markets and encourage domestic savings in those countries.

Section 204. Increasing World Bank Lending Resources.—This section requires the President to initiate negotiations to amend the articles of agreement of the World Bank to provide for the establishment of a bank subsidiary of the World Bank. This subsidiary would be capitalized by the World Bank at $1,000,000,000, and would be permitted to leverage its capital at a 5:1 ratio. This section also requires the Secretary of the Treasury to conduct a study of the need for a general capital increase for the World Bank which would be transmitted to the Congress no later than November 1, 1986, or sixty days after enactment, whichever occurs later.

TITLE III—INCREASING WORLD TRADE AND ECONOMIC GROWTH

Section 301. Trade Liberalization in Developing Countries.—First, this section states the sense of Congress that the prosperity of developing nations and the United States is linked. It declares it to be the policy of the U.S. that assistance to developing nations shall be consistent with long term trade liberalization in developing country markets.

Second, this section directs the U.S. Executive Director of the multilateral development banks to: (1) propose that loans or guarantees from those institutions be consistent with reduction of trade and investment barriers by developing countries, and specifically directs the Executive Directors to vote against loans which would be inconsistent with the advancement of long term trade liberalization and increased market access in developing countries; (2) keep U.S. firms fully informed of bidding opportunities in countries receiving loans from development banks and provide assistance to U.S. firms to fulfill the requirements of the bidding process, and to investigate complaints regarding the awarding of procurement contracts; (3) propose that the World Bank coordinate its actions more closely with the General Agreements on Tariffs and Trade (GATT).

Finally, this section directs the Secretary of Treasury to arrange for the appointment of a foreign commerce officer to serve with each of the U.S. Executive Directors of the multilateral development banks to help promote U.S. exports.

Section 302. Increased Trade and Investment in Developing Nations.—This section requires that the Secretary of Treasury continue ongoing negotiations with Germany, the United Kingdom, France, and Japan, as well as other OECD countries to coordinate macroeconomic policies, achieve sustained non-inflationary growth in developed and developing countries, and encourage growth based on a balance of foreign and domestic demand. It directs the Secretary of Treasury to explore the possibility of increasing the amount of oil purchased from developing countries by industrialized countries and encourages the acquisition of oil through the barter of surplus agricultural commodities.

TITLE IV—INSURING THE STABILITY OF THE INTERNATIONAL FINANCIAL SYSTEM

Section 401. Private Capital Sources for Developing Nations.—This section requires the Secretary of the Treasury, working in conjunction with the Board of Governors of the Federal Reserve Board and Comptroller of the Currency, to explore changes in the structure of U.S. capital markets and the regulation of private financial institutions to help address the debt crisis in a manner consistent with increased growth in debtor countries and increased stability in the U.S. financial system.

The Secretary is required to report to the Congress three months after the date of enactment with conclusions and recommendations for action. He is specifically directed to analyze the following:

(1) Legislative or regulatory changes to permit longer write-off periods by banks for losses associated with loans to debtor developing countries;

(2) Ways to encourage the growth of a secondary market in developing country debt;

(3) The advisability of the creation of a new fund administered by the multilateral development banks in which shares

would be purchased by financial institutions to create new lending capacity for debtor developing countries.

Section 402. Multilateral Development Bank Mobilization of Private Capital.—This section instructs the U.S. Executive Director of the multilateral development banks to propose increased use of co-financing by the banks. In addition, the U.S. Executive Director of the World Bank is instructed to initate discussions with the other directors of that bank to propose that steps be taken to increase the World Bank's role as an intermediary and coordinator in generating new capital for developing countries.

Sections 501–509.—These sections comprise the "Multilateral Investment Guarantee Agency Act," endorsing participation of the United States in the proposed Multilateral Investment Guarantee Agency (MIGA), except that participation will begin no sooner than fiscal year 1988, and only to the extent budgetary resources are made available by future action of the Banking Committee.

Section 601.—This section contains a technical amendment to the Inter-American Development Bank Act authorizing the merger of the Inter-regional and Ordinary Capital Resources.

Section 602.—This section requires the Secretary of the Treasury to instruct the U.S. Executive Director of the Inter-American Development Bank to initiate discussions within that bank to propose that a provision be included in future replenishment agreements which would under certain circumstances allow the directors of the bank to waive any country program limitations contained in replenishment agreements.

Statements Made in Accordance With House Rules

In accordance with clauses 2(l)(2)(B), 2(l)(3), and 2(l)(4) of rule XI of the Rules of the House of Representatives, the following statements are made.

Committee Vote

(Rule XI, Clause 2(l)(2)(B))

H.R. 4574, as amended, was ordered favorably reported by the Full Committee on April 22, 1986, by voice vote with a quorum present.

Oversight Findings and Recommendations

(Rule XI, Clauses 2(l)(2) (A) and (D), and Rule X, Clauses 2(b) (1) and (2) and 4(c)(2))

The hearings conducted by the Subcommittee on International Development Institutions and Finance yielded information and data that support the Committee's findings that the problem of developing country indebtedness has serious economic, financial, and political ramifications for the United States.

The United States is losing valuable export markets because developing countries must use their foreign exchange to service their debts and thus cannot import goods. U.S. banks are dangerously over-exposed to developing countries. Many newly established democratic governments in developing countries are being threatened by declining standards of living brought on by the debt problem. Documentatioin to support these contentions is incorporated in the findings and recommendations of the Committee, as expressed in the legislation and in earlier portions of this report.

The Committee finds that this legislation would assist in alleviating the debt problem facing developing countries and increasing long term trade opportunities for the United States. The recommendation of the Committee, therefore, is that the House pass H.R. 4574, as amended and ordered reported by the Banking Committee.

No formal oversight findings or recommendations have been submitted by the Committee on Government Operations.

Inflation Impact Statement

(Rules XI, Clause 2(l)(4))

The Committee estimates that this bill will not have any impact on any inflationary trends in the national economy.

Cost Estimate of the Congressional Budget Office Pursuant to Section 403 of the Congressional Budget Act of 1974

(Rule XI, Clause 2(l)(3)(C))

The Committee has received the following report from the Congressional Budget Office:

U.S. Congress,
Congressional Budget Office,
Washington, DC, April 28, 1986.

Hon. Fernand J. St Germain,
Chairman, Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has reviewed H.R. 4574, the International Debt, Trade, and Financial Stabilization Act, as ordered reported by the House Committee on Banking, Finance and Urban Affairs on April 22, 1986. CBO estimates that enactment of this legislation will have no significant cost to federal, state, and local governments.

The bill authorizes the President to accept membership for the United States in the Multilateral Investment Guarantee Agency (MIGA). No funding is authorized for this program. The Administration's budget requested an appropriation of $44.4 million and $177.6 million in callable capital in fiscal year 1987 for subscription in the capital stock of MIGA.

The President also is ordered to initiate negotiations with members of the World Bank to establish a new banking affiliate that will be able to make and guarantee loans at a level five times the amount of capital and surplus of the affiliate. The affiliate will be capitalized with $1 billion from the World Bank's capital account. The bill also orders the Secretary of the Treasury to instruct the United States Executive Directors of the World Bank, and the multilateral development banks to initiate discussions on expanding world trade and stabilizing the international financial system. The Secretary of the Treasury is also required to prepare three reports on economic reform proposals. CBO expects that the cost of preparing these reports would be insignificant.

With best wishes,

Sincerely,

RUDOLPH G. PENNER, *Director.*

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTER-AMERICAN DEVELOPMENT BANK ACT

* * * * * * *

SEC. 32. The United States Governor of the Inter-American Development Bank is hereby authorized to agree to and to accept the amendments to the Articles of Agreement in the proposed resolution entitled "Merger of inter-regional and Ordinary Capital Resources."

ADDITIONAL VIEWS OF REPRESENTATIVE JOHN J. LAFALCE

The debt problems of the Third World should be of great concern to all of us here in the United States. Because of this debt, economic growth in these countries has come to a virtual halt. Declining standards of living threaten the political stability of many of these nations, and render less likely the achievement of social and economic justice. The fate of many of the new democratic regimes, which have recently emerged after years of military dictatorship, seems precarious indeed.

As a result of this tremendous debt burden, the debtor countries, which once represented our most promising new export market, have lost the financial capacity to import our goods. The loss of at least one million jobs in the United States can be directly attributed to the debt crisis. We have not just lost export opportunities, however. These countries have had to greatly increase their exports to the United States in order to earn the hard currency necessary to service their debt, thereby further exacerbating the trade deficit.

Unless we can develop a solution to the debt crisis, economic conditions in the Third World will continue to worsen, the fragile new democracies, which have emerged in recent years, will be politically destabilized, and our trade deficit will remain a problem.

ADMINISTRATION'S INATTENTION TO THE PROBLEM

This legislation might not even have been necessary had the Reagan Administration not ignored the debt crisis for the past several years. When the 1982 recession hit and many countries suddenly found their debt burdens a threat to their very economic and social stability, the Administration was content to treat this problem as if it were nothing more than a simple private debtor-creditor dispute. As a result of this hands-off approach, the situation worsened dramatically.

It is particularly unfortunate that the Administration chose to ignore the debt crisis and the needs of the developing world for so long. Institutions such as the World Bank, whose existence are critical to the economic fate of the Third World, have long been the targets of unjust criticism, especially from the right. Had President Reagan, with his great popularity, chosen to vigorously lend his support, a political consensus could have been formed behind the World Bank and the other MDBs.

THE BAKER SPEECH

So inured were we with the Reagan Administration's passive approach to the problem that when Secretary of the Treasury James Baker gave his speech in Seoul, Korea, last year dealing with Third

World debt the reaction was naturally one of enthusiasm. Finally, the Administration had acknowledged that the United States Government had to take a leadership role in resolving the problems of Third World debt.

The events which have occurred, or to be more precise, which have not occurred, since last fall demonstrate that the Baker initiative, though welcome, was just a speech, which has not yet been transformed into a plan. Indeed, very little progress has been made in fleshing out the details of the Baker speech to date. Moreover, even if the Baker speech were fully implemented, it would not be adequate to resolve the enormous debt problem.

When this legislation was first introduced, I was, and still remain, concerned that it might interfere with many areas traditionally left to the prerogative of the Executive. But, after years of inaction, a legislative response not only was to be expected, but welcome, primarily in order to stir the Administration to action, and for this reason I was able to support the legislation.

At a minimum, this legislation will have the salutary effect of signifying to the Administration Congress' growing impatience with delay. I also believe that the Administration would be well-advised to carefully scrutinize many of the policy initiatives proposed in this legislation, which although possibly infringing on what have traditionally been deemed, correctly or incorrectly, executive prerogatives, at least offer creative approaches for remedying the insufficient commitment of funds envisioned under the Baker speech.

THE WORLD BANK BANK

As originally drafted, the legislation proposed changing the gearing ratio for the entire World Bank to 2:1. This was an idea that had both tremendous potential and problems, and eventually was dropped from the bill. It was replaced by the so-called World Bank Bank, or affiliate, which was to have a gearing ratio of 5:1.

Like the original proposal, the affiliate is a concept which offers both tremendous potential and problems. Unfortunately, because the concept emerged only after it was decided to drop the initial proposal to change the gearing ratio for the entire World Bank, the subcommittee did not have the opportunity to have hearings on this innovative idea. This was unfortunate because a hearing record could have addressed several questions regarding the affiliate which today remain unanswered, at least in my mind.

I am concerned that the affiliate, because of its high gearing ratio, has the potential to overwhelm and undermine the World Bank itself. It might appear superficially appealing to some to look to the affiliate instead of the Bank for lending activities because the World Bank requires real capital whereas the affiliate utilizes leverage. Moreover, if the World Bank Bank ever becomes a reality, it will be necessary to delineate more precisely the types of lending activity it will engage in, as compared to that undertaken by the World Bank itself, and to otherwise further define its purposes.

Because it might appear to be cheaper to rely on the paper entrepreneurialism of the affiliate, its existence may actually have the unintended effect of making it more difficult to achieve a capital increase in World Bank funding, which soon will be required. Simply shifting gearing ratios is no substitute for increased real or callable capital committed by the member nations of the World Bank, and if the affiliate undermines the financial commitment to the Bank, it will be most unfortunate indeed. The chief value of establishing a World Bank Bank, then, is to underscore the inadequacy of the Administration's approach to the problem over the past several years during which time it has failed to call for any real increases in World Bank capital or to devote the resources required to address this major problem.

DEBT AND TRADE

While I am hopeful that this legislation will make a positive contribution to a resolution of the debt crisis, I was initially quite concerned about the focus of the bill on trade liberalization for U.S. goods as the quid pro quo for increased assistance to deal with the debt crisis. Exacting trade concessions from the hard-pressed debtor countries, while superficially appealing, could well prevent them from servicing their debt. This policy, had it been adopted in the legislation, would have been extremely counterproductive.

As originally drafted, the legislation appeared to require the complete removal of trade barriers as a condition precedent to the granting of MDB loans. Such a policy would have been extremely difficult for me to support. Not only would it have put the developing countries in an impossible domestic political and economic situation, but it placed the entire burden of trade liberalization on the developing countries, which are by no means the only nations which practice protectionism, and which are not our primary trade competitors. In addition, it is imperative that the United States be sensitive to charges of economic imperialism. Implementation of these trade policies would have left us vulnerable to such charges, and may well have made many of these countries more, rather than less, resistant to economic reform.

I expressed these concerns to other members of the subcommittee who were also sensitive to these same issues. We all agreed that while trade liberalization was a highly desirable goal that could greatly contribute to economic progress, it nevertheless could not and should not be achieved overnight, even in developed countries such as the United States, much less Third World nations, which need to build up their industries and obtain substantial trade surpluses in order to service their debt.

Consequently, I prepared amendments to implement the changes required to soften the bill's trade provisions. These amendments would have continued to acknowledge the importance of trade liberalization, but would not have made its immediate achievement a condition precendent for MDB loans. Under my proposal, a loan which is consistent with long-term trade liberalization may be approved. There is no requirement for the immediate removal of all trade barriers, although progress should be made on reducing them. Both these changes make fundamental economic sense, and do not leave the United States open to charges of economic imperialism. They also maintain the flexibility which the United States must have in assessing MDB loans.

Because both the majority and minority agreed with my recommendations to soften the trade provisions, I chose not to offer my amendments, which were then, by agreement, incorporated in Mr. Bereuter's consensus amendment. Strongly encouraging, but not requiring, trade liberalization will more effectively promote economic growth.

FUTURE STEPS

Although this bill deals promarily with the multilateral development banks, we cannot rely exclusively on these institutions to resolve the debt crisis. The Baker speech focused on the MDBs, the private banks, and internal economic reforms by the debtor countries as the preferred approach to the problem. As I have mentioned, the Baker speech, while a promising first step, requires further improvement and refinement. First, the financial assistance contemplated by the speech is simply inadequate given the magnitude of the problem. Second, the speech fails to effectively bring the IMF into the process. Third, the speech does not delineate the various types of loans which are available—project, program, sectoral and structural adjustment—and determine which among the various institutions should concentrate on particular types of loans. Fourth, it does not address the possible merger of some of these institutions such as the World Bank and the IMF. Finally, merely promulgating a plan does not ensure the leadership and coordination necessary to make it work.

If, as the Administration suggests, and most objective observers believe, the debtor countries need economic reform to effectively cope with their debt burdens, then increased emphasis will have to be placed on structural adjustment lending. The bill vests this responsibility exclusively with the World Bank, but I wonder whether the IMF, based on its experience in this area, might not be better suited for such a role. I also have some reservations about the advisability of pushing the World Bank away from its traditional project lending role, especially if another institution is available to assume these other functions. The World Bank's existing personnel and policies may also make it difficult for it to play the role that both Secretary Baker and the legislation envision for it. One possible solution might be to eventually merge the World Bank with the IMF. At the very least, we need much closer cooperation and coordination between the two institutions, and also amongst the other regional development banks.

Finally, the Administration has failed to exercise the leadership required if the diverse interests of the multilateral institutions, the governments, and the private sector are to be molded into an effective policy to resolve the debt crisis. In effect, the Baker speech has created a three-ring circus involving the private banks, the MDBs, and the debtor governments, but there has been no ringmaster to weave these separate shows together into an effective whole. Only the United States government can perform this function, and unless the Administration begins to exercise more aggressive leadership, there will be no solution to the debt crisis.

JOHN J. LAFALCE.

SUPPLEMENTARY VIEWS OF HON. DOUG BEREUTER AND HON. AL McCANDLESS

These members applaud the initiative of Chairman Lundine to bring a bill on the debt crisis to the attention of the Congress. We have consistently supported efforts by the Subcommittee to focus attention on the extremely difficult economic and political constraints placed on developing nations by the debt problem. As Members of Congress who must decide and vote on Administration funding requests for various multilateral lending institutions, we feel strongly that the Congress has an important role in the policy formulation of international economic strategies which involve Multilateral Development Banks (MDB's).

Some of us became cosponsors of the bill because we felt it important to present to the Committee a bill which highlights the political and economic importance of the debt crisis in the developing world. The Administration was exceedingly late in commenting on this bill and that certainly complicated the Subcommittee's ability to carefully consider this legislation. Since the Subcommittee's mark-up the Administration has, however, made some specific suggestions which we find persuasive; Congressman Bereuter, therefore, offered amendments to the following sections of H.R. 4574:

Section 204 contains a section to establish a lending subsidiary of the World Bank. This is an idea which has been considered for a number of years. Treasury was concerned that the establishment of a Bank within the World Bank would cause commercial bankers to hesitate (even more) before acceeding to Secretary Baker's call for renewed lending to Latin America. The commercial banks could have used the creation of such a subsidiary to avoid new loans in the medium term. Our suggestion was to call for an in-depth study of the idea.

Section 201 mandates "frontloading" of up to 100 percent of total World Bank disbursements over the next four years. To disburse the entire quantity of a loan in one installment would remove much of the leverage the Bank now has over borrowing countries. Providing money up front enhances the risk of abandoned white elephant projects. The Treasury Department also expressed concern about maintaining a credible and legitimate international competitive bidding system. There is a risk that funds to pay the project contractors will not be available for yearly disbursements if the country uses up all the project money at the beginning.

Section 401 mandates a study of U.S. Banking regulations to determine the need for additional flexibility. While we understand the good intentions behind the formulation of this section, of principal concern is the fear that commercial banks—already reluctant to increase their loans to the developing world—will adopt a "wait and see" posture before increasing their loans. Commercial banks continue to be extremely sensitive to the possibility of regulatory change in the United States which would ease their debt problems.

We support the concept of a bill to address growing U.S. concerns with the debt issue. Congress does have an important voice in formulating policy towards the Multilateral Development Banks. Unless some of the problems mentioned above are addressed in H.R. 4574, we will continue to be concerned about the bill's unintended negative effects over the long run and would not support it.

DOUG BEREUTER.
AL MCCANDLESS.

MINORITY VIEWS ON H.R. 4574, THE INTERNATIONAL DEBT, TRADE, AND FINANCIAL STABILIZATION ACT

SUMMARY

The Republican Members of the House Committee on Banking, Finance and Urban Affairs—while we may differ in matters of detail—generally are agreed that most of the legislation contained in H.R. 4574 is unneeded and should, therefore, be voted down. Indeed, some of its proposals could prejudice the achievement of the ultimate objectives which are sought by the sponsors; namely, the resolution of the debt problem of the developing countries.

Treasury Secretary James A. Baker's initiative of last October established economic growth and reform as the guiding principles to help us address the debt problem of the developing countries. Complemented by the successful international effort to bring down the value of the dollar, this combined policy package is the only practical resolution to the problems at hand. One of the early results has been the Group of Five policy coordination which has facilitated interest rate declines and debt service relief for the developing countries. Moreover, the U.S. led dollar initiative should make the United States more competitive, reduce the trade deficit, and add to our Gross National Product. The legislation proposed by the Majority, other than endorsing the basic principles of the Baker initiative, offers nothing that realistically would improve on the Administration's policies that already are in motion.

The exceptions to our conclusions about the necessity of this legislation are Titles V and VI which, respectively, would authorize the President to accept membership for the United States in the Multilateral Investment Guarantee Agency and which would amend the Inter-American Development Bank to effect the merger of inter-regional and ordinary capital.

BILL OF PARTICULARS

This bill in essence attempts belatedly to write into law Administration policy initiatives that had their beginnings over six months ago when Treasury Secretary Baker presented the United States' "Program for Sustained Growth" for dealing with the debt problem of the developing countries at the IMF/World Bank Conference in Seoul. The present bill seeks to codify the principles then enunciated and to "provide explicit directions to the President and the Secretary of the Treasury about the initiatives which should be undertaken . . ."

Needless to say, we are pleased to note that the sponsors of the bill have endorsed the principles of seeking a resolution of the LDC debt problem by a constructive program for economic growth and reform. We support plans today for economic growth and reform abroad just as we did last year when Secretary Baker unveiled his initiative. The U.S. debt initiative has the strong and broad support of the international community and developing countries are now in the process of making the tough decisions regarding necessary structural reforms. It does not require legislation in the United States. Furthermore, we question the wisdom of providing the Executive Branch the detailed guidance that is contained in the bill, particularly since a number of its recommendations are already being implemented while others were considered—but rejected—for reasons explained below.

ACCELERATING DISBURSEMENTS

We are grateful that the Majority included certain amendments offered by our colleagues both during the Subcommittee and full Committee markups. We are disappointed, however, that the Committee would not agree to adopt other amendments, such as Congressman Bereuter's recommendation to delete the proposal to accelerate disbursement of previously committed project loans. Such loans would be fully released to the central banks of the recipient countries at the beginning of a project period, subject to certain accounting safeguards. However, such an action on any widespread scale would undermine the Bank's fundamental mission as a project lender. An immediate disbursement of such funds would substantially lessen the IBRD's leverage to ensure that the projects are properly carried out and, also, that internationally competitive bidding rules are fairly observed. We believe there would be considerable risk that foreign exchange would not be available to pay suppliers in the latter states of the project. These would be matters of concern not only to the Bank and its members, but also to successful bidders in such projects, including American firms.

Immediate disbursement of committed project loans would not be cost-free since World Bank clients would begin interest upon receipt of the loan. Accelerated disbursement of the loan, therefore, could simply add to the interest burden of the borrower. The wisdom and practicality of this section is seriously in doubt.

THE NEW WORLD "BANK" AFFILIATE

In addition to accelerating World Bank disbursements, the bill also envisages creating a new banking affiliate to the IBRD. The timing of such an undertaking is far from ideal. An essential dimension of the "Program for Sustained Growth" is that commercial banks must increase net lending on their own risk and in their own self-interest without government or other types of guarantees. The possibility of intermediation by a World Bank affiliate between debtor countries and commercial banks will cause the latter to ultimately shift the burden and the possible risk of increased lending to the World Bank. Moreover, the use of the World Bank's reserves to capitalize the new institution could well affect market perceptions of the Bank's own credit standing, with potential consequences for its borrowing and lending costs.

We are particularly concerned that this new "banking entity" has no defined purpose in life other than to lend $5 billion potentially. Section 204 contains no guidelines, no policy prescriptions, no restrictions on lending by a new "bank" within the World Bank which the Administration has not requested.

STUDY OF PRIVATE CAPITAL SOURCES FOR DEVELOPING NATIONS

Section 401(a)(b) requests Treasury to do a study that considers changing the regulations of private financial institutions to achieve a lasting solution to the debt crisis. Such a study would be counterproductive because it suggests—contrary to the case-by-case approach strongly endorsed by the "Program for Sustained Growth"—that some form of generalized changes in U.S. regulatory practices can bring about a lasting solution. By holding out the possibility of a generalized approach, this section undermines our fundamental position that economic reforms within the debtor nations are essential to improving their prospects for growth and the longer-term resolution of their debt problems. Secretary Baker, Federal Reserve Board Chairman Paul Volcker, and the heads of U.S. regulatory agencies have stated that new lending to countries making appropriate adjustment efforts can improve the quality of outstanding loans. They believe that the U.S. financial system and U.S. regulatory agencies are sufficiently flexible to accommodate and deal with specific issues on a case-by-case basis, as they arise.

STRUCTURAL ADJUSTMENT LENDING AND CONDITIONALITY

As reported out of Committee, the bill contains provisions which in our best judgment betray a lack of realism—what is politically and economically feasible in many developing countries. Section 301(c)(1)(2)(3), for example, if rigorously adhered to, could well make all MDB development loans impossible. This section stipulates that trade and investment liberalization should be a precondition for any development lending. Numerous loans that include the condition to promote such goals have in fact already been made by the multilateral development banks, spurred in large measure by the U.S. Executive Directors.

REDUNDANT LEGISLATION

Other proposals contained in this legislation reinvent the wheel. Section 301(a)(b), for example, describes in effect the substance of the resolutions adopted by the members of the Group of Five conference in September of last year. It would legislatively direct the Administration to continue such discussions with the objective of coordinating macroeconomic policies among the major industrial countries and of carrying forward expansionist economic policies. It is our view that while harmonization of policy among leading nations is always a desirable goal, the content of policy cannot be legislated since it may be subject to change—surely expansionist policies would not be appropriate in an era of reviving inflationary expectations—and since domestic concerns at times become overpowering.

In any event, the conduct of U.S. foreign policy and the conduct of macroeconomic policy are inherent responsibilities of the Executive Branch. This section of the bill, therefore, is not only unnecessary, it also intrudes into the legitimate responsibilities of the Administration. We are confident that President Reagan will raise these issues on behalf of the American people when he attends the Economic Summit in Tokyo and we would expect no less.

Other examples of unneeded legislation include Section 301(c)(4)(5)(6) which would instruct the Executive Directors to the MDB's to fully assist U.S. bidders to secure MDB procurement contracts. But such responsibilities are presently an important aspect of the Executive Directors. Similarly, Section 301(f), which calls for the Secretary of the Treasury to appoint a foreign commerce officer to serve with each of the U.S. Executive Directors, fails to note that such appointments are not within the Treasury's jurisdiction. Currently the Department of Commerce assists the U.S. Executive Directors at the World Bank, the ADB, and the AFDB. A similar arrangement will shortly be made at the IDB.

Moreover, Section 402 (l)(2) calls for greater use of co-financing in order to encourage increased commercial bank participation in issuing loans. But the World Bank recently approved a management proposal that B-loan instruments—developed to promote private co-financing—be made on a permanent basis. The program allows sufficient scope to provide for any increase in private co-financing that would be warranted.

CAPITAL FLIGHT

One of the most serious problems besetting developing debtor countries is capital flight. To the extent that new funds pumped into a developing economy leak out again to be reinvested elsewhere, the purpose of development lending is being defeated. The present bill quite properly identifies this problem as one of the key difficulties to be resolved. Its directive in Section 203 to the U.S. Executive Director of the World Bank of initiate discussions with his opposite numbers, however, is not likely to prove fruitful. The reasons for capital flight are well understood. Though they may differ from country to country they have understood. Though they may differ from country to country they have a common generic cause: loss of investor confidence in the wisdom, stability, and good faith of their governments and inability to earn a reasonable return on their invested savings.

To reduce and eliminate capital flight the attack must be directed at its root causes rather than dealing with symptoms by measures such as capital controls which have historically been failures and which inevitably led to economic distortions. To deal with the problem effectively will take time and patience. It will take political sensitivity and cooperation by the industrial countries and developing nations. This, and a steady application of the reforming disciplines within the debt strategy laid out by the Administration are the way to restore growth and stability to the debtor nations. Such objectives cannot be achieved by legislation, well intended as it may be.

CONCLUSION

In conclusion, we applaud the efforts of the Reagan Administration and Treasury Secretary Baker in particular to realign the dollar and to set forth a comprehensive resolution of the world debt situation that emphasizes the importance of global economic growth. We believe the Administration's initiatives offer a realistic approach which, as we stated at the outset, have facilitated falling interest rates and debt service relief already—all without Congress enacting this legislation. Provisions in H.R. 4574 such as Section 204, a new "banking entity" within the World Bank, and Section 201, rapid loan disbursements, are unnecessary and may be injurious in the long run. For these reasons, we cannot endorse H.R. 4574 in its present form.

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DISSENTING VIEWS ON H.R. 4574

I believe that H.R. 4574 does not succeed in meeting its stated purpose which is "to alleviate the international debt crisis, expand world trade, and promote stability in the international financial system."

H.R. 4574 makes the Third World debt crisis a U.S. trade problem. While I agree that resurgence of growth in the developing world will increase the market for U.S. exports, developing countries cannot be expected to buy more U.S. goods while they are shouldering unsustainably high debt service burdens. In fact, it is these debt service burdens which forced developing countries to cut back on imports to achieve current account surpluses in the first place. For example, United States' exports to Latin America have fallen by 31 percent since 1980, while our annual trade deficit with the region has increased to $18 billion.

Thus, any hope the United States has of increasing exports to Third World nations must be preceded by a stable solution to the debt problem. We must figure out how best to provide developing countries with the breathing space to grow and develop—so that we all can benefit in the not-so-long run.

In the past, the United States has responded to the Third World debt crisis by emphasizing new loans and new lending. This strategy remains at the heart of the Baker Plan and of the legislation before us today. But the strategy has been—and remains—fundamentally flawed. New lending, be it commercial bank lending or balance-of-payments and non-project lending from the international financial institutions, succeeds only in an extremely limited sense: it allows countries to repay old loans. At the same time, however, new loans pile atop old restructured loans to bloat debt service burdens.

Few resources have been left over for development. As a result, the debtor countries have suffered through what has been termed a "lost decade of growth." Standards of living have plummeted to levels seen 10 years ago. Poverty and malnutrition have soared. Average daily caloric intake in the Third World, for instance, is below what it was in 1975. Political discontent has risen.

Therefore, it is in the United States' economic, political and humanitarian interests to abandon the old non-solutions to the debt crisis and, instead, follow new paths that lead to real solutions. H.R. 4564 should be more than just an expansion of the Baker Plan. I think it could be were the study currently called for in Title IV amended.

Title IV, as drafted, asks Treasury, in conjunction with others, to study ways to solve the debt crisis. There are a number of flaws with the suggested approach. First of all, Treasury has already given us its ideas in the Baker Plan. Second, the goals of the study are left unclear and the instructions are too vague. Third, options such as expanding the secondary market for developing country debt may relieve the banks of troubled debt, but do little to help the developing countries. In short, if we simply ask Treasury to do such a study without delineating very clear, alternative guidelines, we will get the same response: the Baker Plan. But what we need is a new plan.

I offered an amendment which instructed the Federal Reserve Board, in consultation with others, to propose to Congress within three months a specific plan to restructure Third World debt. The Federal Reserve Board's recommendation would not be automatically implemented, but would require subsequent action.

My amendment would have required that the Federal Reserve Board's sample debt restructuring plan include the following elements: First, annual interest payments for Third World countries should be reduced to sustainable levels; i.e., where interest payments are no more than 25 percent of a country's annual export earnings. While experts agree that this cap would go a long way toward restoring some long-term growth and stability to debtor countries, my amendment views the 25 percent cap as an illustrative baseline. In actual implementation, a higher or lower percentage might be appropriate. Second, the Federal Reserve Board should determine the percentage of total debt to the Third World currently being carried by banks at face value which is nonperforming or backed by value-impaired or nonperforming assets. Third, Federal Reserve Board should determine the true value of this debt. Fourth, the data thus calculated should be used to devise a proposal for restructuring a portion of the debt by reducing the face value or maturity of the debt to an amount which approximates its fair value and in a manner consistent with ensuring the overall stability of the United States financial sector. In addition, if further modification of the debt terms is deemed necessary to reach the sustainable debt service burdens, the Federal Reserve Board should analyze other restructuring methods, such as lowering interest rates or lengthening repayment periods, to modify further the terms of the debt.

I do not pretend that I have outlined the perfect debt relief proposal. However, I do think that the Federal Reserve Board's sample debt relief plan would provide us with a benchmark from which we can proceed. It would show us how to take the first step toward dealing with a problem that affects us all.

In sum, we must not simply focus on a symptom—the U.S. trade deficit with the Third World. We must be seeking new and innovative ways to solve the cause.

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